

REGISTERED NUMBER: 09019086 (England and Wales)

AFEX GLOBAL HOLDINGS LIMITED

STRATEGIC REPORT, DIRECTORS REPORT AND
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019



AFEX GLOBAL HOLDINGS LIMITED
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FOR THE YEAR ENDED 31 DECEMBER 2019

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AFEX GLOBAL HOLDINGS LIMITED
COMPANY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2019

DIRECTORS:	I Barr (Resigned 20 April 2020) F V Kunik (Resigned 20 April 2020) J Viletstra W Mitchell (Appointed 20 April 2020)
SECRETARY:	F O'Driscoll (Resigned 25 March 2020) Throgmorton Secretaries LLP (Appointed 25 March 2020)
REGISTERED OFFICE:	4 th Floor 40 Strand London WC2N 5RW
REGISTERED NUMBER:	09019086 (England and Wales)
INDEPENDENT AUDITORS:	PricewaterhouseCoopers LLP 1 Embankment Place, London WC2N 6RH

AFEX GLOBAL HOLDINGS LIMITED
STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019

The directors present their strategic report for the year ended 31 December 2019.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

AFEX Global Holdings Limited ("AFEX"), a company incorporated in United Kingdom on 30 April 2014, is a wholly owned subsidiary of Associated Foreign Exchange Holdings, Inc. and the principal activity of the company is to act as an intermediate holding company for companies within the AFEX Structure ("Group"). The subsidiary entities of AFEX Global Holdings provides customised global payments for a diverse client base and arranges foreign exchange risk management and investment trades on behalf of its clients on an execution only basis.

AFEX Global Holdings Limited invested £1,165,994 into an existing subsidiary, Associated Foreign Exchange Singapore PTE on 16 September 2019. This represents 1 fully paid ordinary share of SGD 2 million.

AFEX Global Holdings Limited invested £1,879,488 into an existing subsidiary, Associated Foreign Exchange Ireland Limited on 23 October 2019. This represents 2,164,000 fully paid ordinary shares of EUR 1.

As a holding company there are no revenues or costs to report.

AFEX Global Holdings Limited is committed to extending its geographical presence and also ensuring the sustained growth of all its existing subsidiary undertakings.

The net assets of the company as at 31 December 2019 was £107 (2018: £107).

PRINCIPAL RISKS AND UNCERTAINTIES AND FINANCIAL RISK MANAGEMENT

The principal activities of the company outlined above give rise to both operational and financial risks in the normal course of business. These risks are managed on both a Group-wide basis and locally within each company.

The company has a low risk appetite. The principal risks that the business faces are described below.

Strategic risk can arise from inadequate Board and senior management processes and external factors that lead to a failure to identify or implement the company's strategy. This is mitigated by a process for determining the company's risk appetite and strategy on an on-going basis.

Regulatory risk is the risk of non-compliance and future changes in regulatory rules that would impact the company's business. The company's ability to operate as a going concern is dependent on ensuring it is consistently up-to-date with the necessary regulatory authorisations and complying with the associated rules at all times.

The company mitigates this regulatory risk by ensuring a compliance culture throughout all levels of the business and by investing significant amounts of time and resource to implement appropriate systems and controls. The company holds in-house Compliance training programmes to ensure adherence with requirements.

Foreign exchange risk is managed by closely monitoring short, medium and long term exchange rates and the company has a policy of hedging against currency fluctuations relating to transactions. The company has established internal controls and best practices guiding activities as they relate to the management of FX risks.

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. The company seeks to identify and quantify the operational risks that the company faces. The company then decides whether to accept, avoid, reduce the likelihood or reduce the impact of each of the individual risks.

Investment impairment risk can arise when the financial performance or the return from the investment in the subsidiary entities is below expectation or negatively impacted by the market so that the recoverable amount of the investment in the subsidiaries is lower than the value recognised and capital committed. This is mitigated by an active review process of the subsidiaries business operation, risk appetite and strategy on an on-going basis.

ON BEHALF OF THE BOARD:

Mr Wayne Mitchell – Director



2 November 2020

AFEX GLOBAL HOLDINGS LIMITED
DIRECTORS REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019

The directors present their report with the audited financial statements of the company for the year ended 31 December 2019. Financial risk management is discussed within the strategic report.

DIVIDENDS

No dividends will be distributed for the year ended 31 December 2019 (2018: £Nil).

DIRECTORS

The directors of the company who were in office during the year and up to the date of signing the financial statements were:

I Barr (Resigned 20 April 2020)
F V Kunik (Resigned 20 April 2020)
J Vlietstra
W Mitchell (Appointed 20 April 2020)

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

DIRECTORS' CONFIRMATIONS

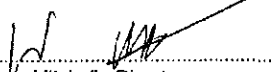
In the case of each director in office at the date the Directors Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP, having expressed their willingness to continue in office, will be deemed reappointed for the next financial year in accordance with Section 487(2) of the Companies Act 2006 unless the company receives notice under Section 488(1) of the Act.

ON BEHALF OF THE BOARD:


.....
Mr Wayne Mitchell - Director

Date: 2 November 2020.

AFEX GLOBAL HOLDINGS LIMITED
INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
AFEX GLOBAL HOLDINGS LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, AFEX Global Holdings Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its results for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Strategic Report, Directors Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2019; the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. 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 based on these responsibilities.

With respect to the Strategic Report and Directors Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

AFEX GLOBAL HOLDINGS LIMITED
INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
AFEX GLOBAL HOLDINGS LIMITED

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 3, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company'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 directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 ISAs (UK) 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 financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 18 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Adri Loubser (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

2 November 2020

AFEX GLOBAL HOLDINGS LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019
REGISTERED NUMBER: 09019086

	Note	2019 £	2018 £
Assets			
Non-current assets			
Investments in subsidiaries	5	13,283,512	10,238,030
Total assets		13,283,512	10,238,030
Equity			
Share capital	6	107	107
Retained earnings		-	-
Total Equity		107	107
Liabilities			
Current liabilities			
Trade and other payables	7	13,283,405	10,237,923
Total liabilities		13,283,405	10,237,923
Total equity and liabilities		13,283,512	10,238,030

There is no profit or loss or cash flow activity, and as a result, these statements have not been presented.

The financial statements on pages 6 to 14 were approved by the Board of Directors on 2 November 2020 and were signed on its behalf by:


 Mr Wayne Mitchell - Director

The accompanying notes on pages 8 - 14 form an integral part of these financial statements

AFEX GLOBAL HOLDINGS LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	Share capital £	Retained earnings £	Total equity £
As at 1 January 2018		107	-	107
Result for the year		-	-	-
Total comprehensive income		-	-	-
Issue of share capital	6	-	-	-
As at 31 December 2018		107	-	107
Result for the year		-	-	-
Total comprehensive income		-	-	-
Issue of share capital	6	-	-	-
As at 31 December 2019		107	-	107

The accompanying notes on pages 8 - 14 form an integral part of these financial statements

AFEX GLOBAL HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

1. GENERAL INFORMATION

The principal activities of AFEX Global Holdings Limited ("AFEX") are to act as an intermediate holding company for companies within the Group. The Group provides customised global payments for a diverse client base and arranges foreign exchange risk management and investment trades on behalf of its clients on an execution only basis.

The company is in receipt of a letter of support from its immediate parent company, Associated Foreign Exchange Inc. to provide financial support for a period of no less than 12 months from the signing date of these financial statements. With this support, the directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Company 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.

AFEX Global Holdings Limited is a private company limited by shares domiciled in the United Kingdom. Its registered office and principal place of business is 4th Floor, 40 Strand, and London, WC2N 5RW.

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretation Committee (IFRS IC) interpretations as issued by the International Accounting Standards Board and adopted by the European Union, and the Companies Act 2006 as applicable to the companies reporting under IFRS.

These financial statements are prepared as per the requirements of the Companies Act 2006 as applicable to companies using IFRS and the statements are prepared as per the historic cost convention. The accounting policies set out below have, unless otherwise stated, been applied consistently to all the periods presented in these financial statements.

Judgements made by the directors in the application of those accounting policies which have a significant effect on the financial statements and estimates with a substantial risk of material adjustment in the next financial year are disclosed in Note 2.2.

The Company meets the conditions for exemption from the requirement to prepare consolidated financial statements under s401 of the Companies Act 2006. Consequently, these financial statements present information about the Company as an individual undertaking and not about the Company and its subsidiaries as a consolidated entity. Consistent with the requirements of s401, management has attached the consolidated financial statements of its immediate parent entity, Associated Foreign Exchange, Inc. for the year ended 31 December 2019 as an appendix to these financial statements.

The registered office of Associated Foreign Exchange, Inc. is 21045 Califa St, Woodland Hills, CA 91367 United States.

2. PRINCIPAL ACCOUNTING POLICIES

2.1 Functional and presentation currency

The financial statements are presented in Sterling, which is also the functional currency of the company. All amounts, unless otherwise stated, have been rounded to the nearest pound.

2.2 Accounting estimates and judgements

The preparation of the company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

Estimate - Impairment

The financial statements have been prepared on a historical cost basis. The carrying value of investments is £13,283,512 (2018: £10,238,030). This is based on the cost invested into each subsidiary entity and subsequent to all impairment reviews carried out. The residual values of all investments are reviewed at each financial year and adjusted prospectively, if appropriate. This review includes an annual impairment review of all investments. All investments are stated at the lower of cost and net realisable value.

2.3 New Standards, Amendments and Interpretations

In the current year, the following amendments to adopted IFRSs are mandatorily effective for an accounting period that begins on or after 1 January 2019. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements:

AFEX GLOBAL HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

2.3 New Standards, Amendments and Interpretations (continued)

- Interpretation 23, Uncertainty over Income Tax Treatments;
- Amendments to IFRS 9, Prepayment Features with Negative Compensation;
- Amendments to IAS 28, Long-term Interests in Associates and Joint Ventures;
- Annual Improvements to IFRS Standards 2015-2017 Cycle;
- Amendments to IAS 19, Plan Amendment, Curtailment or Settlement
- IFRS 16, 'Leases'

There are no other IFRS or IFRS IC interpretations that are not yet effective that would be expected to have a material impact on the group's consolidated financial statements.

At the date of authorisation of these financial statements, the company has not applied the following new and revised IFRSs that have been issued but are not yet effective and in some cases had not yet been adopted by the EU:

- IFRS 17, Insurance Contracts;
- Amendments to IAS 1 and IAS 8, Definition of Material
- Amendments to IFRS 3, Definition of a Business
- Revised Conceptual Framework for Financial Reporting
- Amendments to IFRS 10 and IAS 28, Sale or contribution of assets between an investor and its associate or joint venture

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions. The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the group in future periods.

2.4 Current versus non-current classification

The company presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- expected to be realised or intended to be sold or consumed in the normal operating cycle; or
- held primarily for the purpose of trading; or
- expected to be realised within twelve months after the reporting period; or
- cash or cash equivalents unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- it is expected to be settled in the normal operating cycle; or
- it is held primarily for the purpose of trading; or
- it is due to be settled within twelve months after the reporting period; or
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

2.5 Foreign currencies

Transactions in foreign currencies are initially recorded at the spot rate at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date of the initial transactions.

The group headed by Associated Foreign Exchange Holdings Inc. manages foreign exchange exposure on a group wide basis. Accordingly, gains and losses arising from exchange rate movements are transferred to Associated Foreign Exchange Inc., another group company.

AFEX GLOBAL HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.6 Financial instruments

Financial assets and liabilities are recognised in the company's Statement of Financial Position when the company becomes a party to the contractual provisions of the instrument. The company's financial instruments comprise cash, trade receivables and trade and other payables.

Trade payables

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the company becomes a party to the contractual provisions of the instrument. All financial liabilities are recorded at amortised cost using the effective interest method, with interest related charges recognised as an expense in finance cost in the statement of comprehensive income.

A financial liability is derecognised only when the obligation is extinguished, that is, when the obligation is discharged, cancelled or expires.

2.7 Investments

Investments in subsidiaries are shown at cost less provision for impairment. Impairment assessments are carried out annually.

2.8 Equity

Equity comprises the following:

- share capital represents the nominal value of the equity shares; and
- retained earnings represent accumulated profits and losses from incorporation.

2.9 Auditors' Remuneration

The audit fee for the company is borne by another group company (Associated Foreign Exchange Limited). The audit fee for 2019 amounted to £7,500 (2018: £7,200).

3. Taxation

The entity does not have current or deferred tax balances for the current and prior year.

4. Directors and employees

The directors of the company are the key management personnel, none of whom were remunerated by the company during the years ended 31 December 2019 and 31 December 2018. The remuneration of the directors of this entity are borne by another entity within the AFEX group. The value of the services provided by the directors to the entity are deemed to be of negligible value. The company did not employ any employees during the years ended 31 December 2019 and 31 December 2018.

AFEX GLOBAL HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

5. Investments in Subsidiaries - 2019

Name of subsidiary	Country of incorporation	Effective ownership	Investment £
AFEX Offshore Limited	Jersey	100%	3,450,000
Registered office: 1 st Floor, 9 Burrard Street, St Helier Jersey, JE2 4WS			
Associated Foreign Exchange Limited UK		100%	380,001
Registered office: 4 th Floor, 40 Strand, London, WC2N 5RW			
Associated Foreign Exchange Australia PTY Ltd	Australia	100%	431,745
Registered office: Level 38, Citigroup, 2 Park Street, Suite D, Sydney, NSW 2000, Australia			
Associated Foreign Exchange (Schweiz) AG	Switzerland	100%	66,623
Registered office: Stampfenbachstrasse 5, 8001 Zurich, Schweiz			
Associated Foreign Exchange Singapore PTE	Singapore	100%	3,473,586
Registered office: 4 Shenton Way, 28-03 SGX Centre 2, Singapore, 068807.			
Associated Foreign Exchange ULC (Canada)	Canada	100%	3,482,551
Registered office: 200 Front Street West, Suite 2203, Toronto, ON, Canada			
AFEX Hong Kong Limited	Hong Kong	100%	-
Registered office: Suite 1106-8, 11/F, Tai Yau Building, No. 181 Johnston Road, Wanchai, Hong Kong			
Associated Foreign Exchange New Zealand Limited	New Zealand	100%	56
Registered office: L4, 152 Fanshawe Street, Auckland 1010, New Zealand			
Associated Foreign Exchange Ireland Limited	Ireland	100%	1,888,130
Registered office: 1 st Floor, 120 / 121 Lower Baggot Street, Dublin 2, Ireland			
AFEX Markets Europe Limited	Ireland	100%	110,820
Registered office: 1 st Floor, 120 / 121 Lower Baggot Street, Dublin 2, Ireland			
			<u>13,283,512</u>

The directors believe that the recoverable amount of investments is equal to or greater than the carrying value.

AFEX GLOBAL HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

5. Investments in Subsidiaries (continued) – 2018

Name of subsidiary	Country of incorporation	Effective ownership	Investment £
AFEX Offshore Limited	Jersey	100%	3,450,000
Registered office: 1 st Floor, 9 Burrard Street, St Helier Jersey, JE2 4WS			
Associated Foreign Exchange Limited UK		100%	380,001
Registered office: 4 th Floor, 40 Strand, London, WC2N 5RW			
Associated Foreign Exchange Australia PTY Ltd	Australia	100%	431,746
Registered office: Level 38, Citigroup, 2 Park Street, Suite D, Sydney, NSW 2000, Australia			
Associated Foreign Exchange (Schweiz) AG	Switzerland	100%	66,623
Registered office: Stampfenbachstrasse 5, 8001 Zurich, Schweiz			
Associated Foreign Exchange Singapore PTE	Singapore	100%	2,307,592
Registered office: 4 Shenton Way, 28-03 SGX Centre 2, Singapore, 068807.			
Associated Foreign Exchange ULC (Canada)	Canada	100%	3,482,551
Registered office: 200 Front Street West, Suite 2203, Toronto, ON, Canada			
AFEX Hong Kong Limited	Hong Kong	100%	-
Registered office: Suite 1106-8, 11/F, Tai Yau Building, No. 181 Johnston Road, Wanchai, Hong Kong			
Associated Foreign Exchange New Zealand Limited	New Zealand	100%	56
Registered office: 1.4, 152 Fanshawe Street, Auckland 1010, New Zealand			
Associated Foreign Exchange Ireland Limited	Ireland	100%	8,642
Registered office: Ground Floor, 4044 Kingswood Avenue, Citywest, Dublin 24, Ireland			
AFEX Markets Europe Limited	Ireland	100%	110,820
Registered office: 1 st Floor, 120 / 121 Lower Baggot Street, Dublin 2, Ireland			
			<u>10,238,030</u>

The directors believe that the recoverable amount of investments is equal to or greater than the carrying value.

AFEX GLOBAL HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

6. Share capital

Authorised and issued but not fully paid:	2019	2018
	£	£
107 (2018: 107) Ordinary shares of £1.00 per share	107	107
	107	107

7. Trade and other payables - Current

	2019	2018
	£	£
Amounts to group undertakings (Note 8)	13,283,405	10,237,923
	13,283,405	10,237,923

The amounts owed to group undertakings are unsecured and are repayable on demand.

8. Related party transactions

Associated Foreign Exchange Holdings Inc. is considered to be a related party as it is the ultimate controlling party. The total amount due to Associated Foreign Exchange Holdings, Inc. at 31 December 2019 was £908,370 (2018: £908,370).

Associated Foreign Exchange Limited is considered to be a related party as it is a fellow subsidiary of AFEX Global Holdings Limited. The total amount due to Associated Foreign Exchange Limited at 31 December 2019 was £380,001 (2018: £380,001).

Associated Foreign Exchange Australia Pty Ltd is considered to be a related party as it is a fellow subsidiary of AFEX Global Holdings Limited. The total amount due to Associated Foreign Exchange Australia Pty Ltd at 31 December 2019 was £370,688 (2018: £387,114).

Associated Foreign Exchange, ULC (Canada) is considered to be a related party as it is a fellow subsidiary of AFEX Global Holdings Limited. The total amount due to Associated Foreign Exchange, ULC (Canada) at 31 December 2019 was £581 (2018: £575).

Associated Foreign Exchange (Schweiz) AG is considered to be a related party as it is a fellow subsidiary of AFEX Global Holdings Limited. The total amount due to Associated Foreign Exchange (Schweiz) AG at 31 December 2019 was £78,032 (2018: £79,918).

Associated Foreign Exchange Inc. is considered to be a related party as it is a fellow subsidiary of Associated Foreign Exchange Holdings Inc. The total amount due to Associated Foreign Exchange Inc. at 31 December 2019 was £11,431,411 (2018: £8,360,531).

Associated Foreign Exchange New Zealand Limited is considered to be a related party as it is a fellow subsidiary of AFEX Global Holdings Limited. The total amount due to Associated Foreign Exchange New Zealand at 31 December 2019 was £51 (2018: £53).

Associated Foreign Exchange Ireland Limited is considered to be a related party as it is a fellow subsidiary of AFEX Global Holdings Limited. The total amount due to Associated Foreign Exchange Ireland Limited at 31 December 2019 was £8,464 (2018: £8,989).

AFEX Markets Europe Limited is considered to be a related party as it is a fellow subsidiary of AFEX Global Holdings Limited. The total amount due to AFEX Markets Europe Limited at 31 December 2019 was £105,807 (2018: £112,372).

AFEX GLOBAL HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

9. Ultimate parent company and ultimate controlling party

AFEX Global Holdings' immediate parent company is Associated Foreign Exchange, Inc. and its ultimate parent company is *Associated Foreign Exchange Holdings, Inc.* Both parent companies are incorporated in the United States of America.

Within the ultimate parent company there is no one single controlling party as majority shareholder.

Associated Foreign Exchange Holdings, Inc. is the largest and Associated Foreign Exchange, Inc. is the smallest group of undertakings to prepare consolidated financial statements at 31 December 2019.

10. Subsequent events.

Coronavirus (COVID-19) was declared a global pandemic by the World Health Organisation on 11 March 2020 and this is therefore considered a non-adjusting post balance sheet event. The impact cannot be quantified at this stage.

Fleetcor Inc. have agreed in principal to acquire the Afex Group on 17th September 2020 subject to regulatory approvals.

**ASSOCIATED FOREIGN EXCHANGE, INC.
AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

**Group package accounts to be filed with the accounts for
AFEX GLOBAL HOLDINGS LIMITED**

THESE ACCOUNTS
FORM PART OF THE
GROUP ACCOUNTS
OF COMPANY
No. 5019086.....

**ASSOCIATED FOREIGN EXCHANGE, INC.
AND SUBSIDIARIES**

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Report of Independent Auditors

To the Board of Directors of Associated Foreign Exchange, Inc.

We have audited the accompanying consolidated financial statements of Associated Foreign Exchange, Inc., and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of comprehensive income, of shareholder's equity and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements 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 Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Associated Foreign Exchange, Inc., and its subsidiaries as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 30, 2020

PricewaterhouseCoopers LLP, 601 South Figueroa Street, Los Angeles, CA 90017
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**ASSOCIATED FOREIGN EXCHANGE, INC.
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2019 AND 2018**

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 248,899,838	\$ 183,569,373
Derivative assets, spots and forwards	29,589,631	28,822,906
Derivative assets, options	36,443,227	18,958,727
Settlements receivable	8,926,529	7,130,789
Accounts receivable, net of \$1,401,999 reserve for bad debts (2018: \$543,528)	3,060,587	1,326,719
Due from affiliates	-	20,620
Prepaid expenses	4,042,829	3,428,919
Investments	1,054,947	1,029,067
Other assets, current	<u>288,428</u>	<u>1,006,287</u>
Total Current Assets	<u>332,306,016</u>	<u>245,293,407</u>
Non-Current Assets		
Property, equipment and improvements, net	13,759,872	14,666,232
Goodwill, net	4,221,066	4,480,491
Other assets, non-current	<u>2,518,394</u>	<u>2,272,310</u>
Total Non-Current Assets	<u>20,449,332</u>	<u>21,419,033</u>
Total Assets	<u>\$ 352,805,348</u>	<u>\$ 266,712,440</u>

The accompanying notes are an integral part of these financial statements.

**ASSOCIATED FOREIGN EXCHANGE, INC.
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2019 AND 2018**

	2019	2018
Liabilities and Shareholder's Equity		
Current Liabilities		
Customer deposits	\$ 220,681,139	\$ 165,669,212
Derivative liabilities, spots and forwards	13,872,499	12,068,476
Derivative liabilities, options	36,443,227	18,958,727
Settlements payable	8,926,529	7,130,789
Accounts payable and accrued expenses	14,030,811	9,913,304
Due to affiliates	<u>10,603,390</u>	<u>12,194,228</u>
Total Current Liabilities	<u>304,557,595</u>	<u>225,934,736</u>
Non-Current Liabilities		
Deferred compensation liabilities	<u>732,744</u>	<u>603,338</u>
Total Non-Current Liabilities	<u>732,744</u>	<u>603,338</u>
Total Liabilities	<u>305,290,339</u>	<u>226,538,074</u>
Total Liabilities and Shareholder's Equity		
Common stock, no par value, 1,500 shares authorized, 800 shares issued and outstanding	800,000	800,000
Additional paid-in-capital	9,597,143	9,597,143
Accumulated other comprehensive loss	(6,413,033)	(7,093,113)
Retained Earnings	<u>43,530,899</u>	<u>36,870,336</u>
Total Shareholder's Equity	<u>47,515,009</u>	<u>40,174,366</u>
Total Liabilities and Shareholder's Equity	<u>\$ 352,805,348</u>	<u>\$ 266,712,440</u>

The accompanying notes are an integral part of these financial statements.

**ASSOCIATED FOREIGN EXCHANGE, INC.
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Net Revenue		
Foreign currency exchange services	\$ 131,701,011	\$ 115,647,099
Transaction fees	<u>1,896,510</u>	<u>1,641,185</u>
Total Net Revenue	<u>133,597,521</u>	<u>117,288,284</u>
Operating Expenses		
Employee compensation and benefits	83,077,130	73,915,544
Office expense	11,242,968	10,634,387
Rent expense	4,653,923	4,677,309
Bank expenses	4,968,904	4,491,978
Professional fees	4,956,195	4,435,503
Depreciation and amortization	4,439,932	4,239,747
Travel expenses	3,634,928	3,129,838
Advertising and marketing	2,085,865	1,571,701
Other operating expenses	<u>1,953,107</u>	<u>1,104,716</u>
Total Operating Expenses	<u>121,012,952</u>	<u>108,200,723</u>
Operating Income	<u>12,584,569</u>	<u>9,087,561</u>
Other (Income) / Expense		
Interest income	(666,125)	(759,158)
Interest expense	325,390	375,092
Impairment losses and disposals	<u>1,382</u>	<u>6,614</u>
Total Other (Income)	<u>(339,353)</u>	<u>(377,452)</u>
Income Before Income Taxes	12,923,922	9,465,013
Provision for Income Taxes	<u>2,378,109</u>	<u>756,485</u>
Net Income	<u>10,545,813</u>	<u>8,708,528</u>
Foreign currency translation adjustment	<u>680,080</u>	<u>(1,786,807)</u>
Comprehensive Income	<u>\$ 11,225,893</u>	<u>\$ 6,921,721</u>

The accompanying notes are an integral part of these financial statements.

**ASSOCIATED FOREIGN EXCHANGE, INC.
AND SUBSIDIARIES**
CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Shareholder's Equity
	Shares	Amount				
Balance - December 31, 2017	<u>800</u>	<u>\$ 800,000</u>	<u>\$ 9,597,143</u>	<u>\$ (5,306,306)</u>	<u>\$ 31,000,742</u>	<u>\$ 36,091,579</u>
Contributions	--	--	--	--	--	--
Distributions	--	--	--	--	(2,838,934)	(2,838,934)
Comprehensive income (loss)	<u>--</u>	<u>--</u>	<u>--</u>	<u>(1,786,807)</u>	<u>8,708,528</u>	<u>6,921,721</u>
Balance - December 31, 2018	<u>800</u>	<u>\$ 800,000</u>	<u>\$ 9,597,143</u>	<u>\$ (7,093,113)</u>	<u>\$ 36,870,336</u>	<u>\$ 40,174,366</u>
Contributions	--	--	--	--	--	--
Distributions	--	--	--	--	(3,885,250)	(3,885,250)
Comprehensive income (loss)	<u>--</u>	<u>--</u>	<u>--</u>	<u>680,080</u>	<u>10,545,813</u>	<u>11,225,893</u>
Balance - December 31, 2019	<u>800</u>	<u>\$ 800,000</u>	<u>\$ 9,597,143</u>	<u>\$ (6,413,033)</u>	<u>\$ 43,530,899</u>	<u>\$ 47,515,009</u>

The accompanying notes are an integral part of these financial statements.

**ASSOCIATED FOREIGN EXCHANGE, INC.
AND SUBSIDIARIES**
CONSOLIDATED STATEMENTS OF CASH FLOWS
AS OF DECEMBER 31, 2019 AND 2018

	2019	2018
Cash Flows from Operating Activities		
Net Income	\$ 10,545,813	\$ 8,708,528
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	4,441,315	4,239,747
Gain on impairment and disposal	-	6,614
Bad debt expense	1,322,271	522,151
Unrealized gain/loss on derivatives	324,336	(2,403,093)
Changes in operating assets and liabilities:		
Accounts receivable	(3,056,138)	2,502,737
Due to/from Affiliates	(1,570,218)	4,512,556
Derivative assets/liabilities, spots and forwards	712,961	(6,027,939)
Prepaid expenses and other current assets	(613,910)	(449,047)
Other assets	471,775	364,832
Customer deposits	55,011,927	10,425,025
Accounts payable and accrued expenses	4,246,912	(2,241,197)
Total Adjustments	61,291,231	11,452,386
Net Cash Provided by Operating Activities	\$ 71,837,044	\$ 20,160,914
Cash Flows from Investing Activities		
Investments	(25,880)	730,159
Acquisition of property, equipment and improvements	(3,275,529)	(2,466,864)
Net Cash Used in Investing Activities	\$ (3,301,409)	\$ (1,736,705)

The accompanying notes are an integral part of these financial statements.

**ASSOCIATED FOREIGN EXCHANGE, INC.
AND SUBSIDIARIES**
CONSOLIDATED STATEMENTS OF CASH FLOWS
AS OF DECEMBER 31, 2019 AND 2018

	2019	2018
Cash Flows from Financing Activities		
Payments on line of credit	-	(30,000,000)
Payments on related party note payable	-	(3,000,000)
Distributions to the shareholder	<u>(3,885,250)</u>	<u>(2,838,935)</u>
Net Cash Used in Financing Activities	<u>(3,885,250)</u>	<u>(35,838,935)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	64,650,385	(17,414,726)
Effect of Exchange Rates on Cash and Cash Equivalents	680,080	(1,786,806)
Cash and Cash Equivalents - Beginning	<u>183,569,373</u>	<u>202,770,905</u>
Cash and Cash Equivalents - Ending	<u>\$ 248,899,838</u>	<u>\$ 183,569,373</u>

Supplemental Disclosure of Cash Flow Information

Cash paid during the year for:			
Interest	\$ 322,196	\$ 380,561	
Income Taxes	\$ 1,725,630	\$ 707,253	

The accompanying notes are an integral part of these financial statements.

ASSOCIATED FOREIGN EXCHANGE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2019 AND 2018

NOTE 1 - DESCRIPTION OF BUSINESS

Associated Foreign Exchange, Inc. and Subsidiaries (collectively, "AFEX" or "the Company") provide worldwide foreign currency exchange services, primarily cross-border cross-currency transactions, to small and medium size enterprises as well as other organizations and individuals. The Company's business activities include exchanging currencies at spot rates, which enable customers to make cross-currency payments, and the writing of foreign currency forward and option contracts for customers to facilitate future payments and hedge their foreign currency risk. The Company is licensed as a money service business ("MSB") by the banking departments of regulatory authorities in the U.S. states and foreign countries in which it operates. These licenses subject the Company to compliance obligations including anti-money laundering reporting requirements in certain jurisdictions.

The Company, based in Woodland Hills, California, was formed in December 2006 and registered as a California S Corporation. AFEX operates as a wholly-owned subsidiary of Associated Foreign Exchange Holdings, Inc. ("AFEX Holdings"). The Company has elected December 31 as its year end for tax and financial reporting purposes.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements for the year ended December 31, 2019 include the accounts of Associated Foreign Exchange, Inc. and its wholly owned domestic and foreign subsidiaries:

- Associated Foreign Exchange Australia Pty Limited (Australia)
- Associated Foreign Exchange, ULC (Canada)
- Inversiones Transpacific SpA (Chile)
- Transpacific Servicios Financieros SpA (Chile)
- AFEX Hong Kong Limited (Hong Kong)
- AFEX Markets Europe Limited (Ireland)
- Associated Foreign Exchange Ireland Ltd. (Ireland)
- AFEX Offshore Ltd. (Jersey)
- Associated Foreign Exchange New Zealand Ltd. (New Zealand)
- Associated Foreign Exchange (Singapore) Pte. Limited
- Associated Foreign Exchange (Schweiz) AG (Switzerland)
- AFEX Global Holdings Ltd. (United Kingdom)
- AFEX Markets plc (United Kingdom)
- Associated Foreign Exchange Limited (United Kingdom)

Intercompany accounts and transactions have been eliminated in consolidation.

BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP"). The summary of significant accounting policies presented below is designed to assist in understanding the Company's consolidated financial statements.

ASSOCIATED FOREIGN EXCHANGE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVISION OF PRIOR YEAR FINANCIAL STATEMENTS

The December 31, 2018 Consolidated Balance Sheet reflects the correction of the classification of liabilities by reducing Accounts Payable and Accrued Expenses and increasing Customer Deposits by approximately \$6 million and \$6 million, respectively. The 2018 Consolidated Statement of Cash Flow has also been revised to reflect the correction of the abovementioned classification error.

USE OF ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

CASH AND CASH EQUIVALENTS

The Company considers foreign currencies to be cash equivalents. Foreign currencies are recorded using relevant inter-bank exchange rates on a trade-date basis and adjusted to fair value using the spot rates at reporting date. Any unrealized holding gains and losses on foreign currencies are recognized in Foreign Currency Exchange Services revenue.

The Company is exposed to foreign exchange risk on the foreign currencies it held as part of cash during the year. To mitigate this risk, the Company enters into derivative contracts with financial institutions to economically hedge exposure from its customer trading activity (See Note 4, Derivatives).

The Company maintains cash and cash equivalent balances with various financial institutions worldwide. Such balances often exceed the insured limits of the United States Federal Deposit Insurance ("FDIC") and deposit insurance programs supported by foreign governments. The Company maintains restricted cash balances including collateral trading funds and amounts to cover money transmission liabilities in compliance with various State requirements. Restricted cash balances were \$113,834,969 (2018: \$61,538,987), including \$46,843,792 (2018: \$11,967,886) of trading collateral and \$31,991,177 (2018: \$30,484,517) of client funds and non-trading collateral. \$35,000,000 (2018: \$20,000,000) in USD funds is maintained for money transmission liabilities as required by various regulatory agencies in the United States, as of December 31, 2019.

CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of accounts receivable and foreign currency spot, forward and option contracts. The Company places its cash with high credit quality financial institutions throughout the world. The Company's foreign currency transactions are entered into with eight international financial institutions. The Company limits the concentration of its cash and cash equivalents with any one institution and regularly reviews investment concentrations and credit worthiness of these institutions.

ASSOCIATED FOREIGN EXCHANGE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Company is exposed to credit losses in the event of nonperformance by the counterparties to foreign currency exchange rate forward and certain option agreements. However, the Company does not anticipate significant nonperformance by its bank counterparties and customers. This risk is partially mitigated by deposits received from customers who enter into these agreements. The Company settles in U.S. dollars or foreign currencies, at maturity, at rates agreed to at the inception of the contracts.

These foreign currency agreements have not been designated for hedge accounting treatment and, as such, changes in the fair value of these instruments are recognized in Foreign Currency Exchange Services revenue. The Company elected, under ASC 815 *Derivatives and Hedging* guidance, to offset fair value amounts recognized for derivative instruments under netting arrangements by counterparty (See Note 3, Fair Value Measurements and Note 4, Derivatives).

The Company further mitigates credit risk arising from amounts receivable from customers through credit approvals, credit limits, and the monitoring of customers' transaction activities. In addition, the Company performs ongoing credit evaluations of its customers' financial condition and credit worthiness. The credit risk associated with spot foreign currency exchange contracts is largely mitigated, as in most cases the Company requires the receipt of funds from customers before releasing the associated payment.

The Company's concentration of risk to any one customer or categories of customers is reduced by the nature of AFEX's large, diverse customer base. During the years ended December 31, 2019 and 2018, no one customer accounted for more than 10% of the Company's net revenues. This risk of nonperformance by certain financial institutions may have significant impact on the Company's operations.

ACCOUNTS RECEIVABLE

Accounts receivable are derived from transactions with US retail customers including private individuals and banks, as well as payments to be received for processing foreign currency transactions, such as checks, wires and bank notes, on behalf of the transferee prior to receiving settled funds from the bank, and other certain amounts outstanding from customers relating to trading activity.

RESERVE FOR BAD DEBTS

The reserve for bad debts is established by estimating losses from customers based on the Company's analysis of the aging of its accounts receivable balances and ongoing credit evaluations of its customers for amounts due to the Company. AFEX recognizes bad debt reserves and expense in-line with ASC 310 *Receivables* guidance on impairment of specific receivable balances. Receivable losses are charged against the Reserve for Bad Debts when management believes the account balance is uncollectible. As of December 31, 2019, the Company recorded a Reserve for Bad Debts of \$1,401,999 (2018: \$543,528) against the Accounts Receivable balance.

ASSOCIATED FOREIGN EXCHANGE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GEOGRAPHIC CONCENTRATION OF REVENUE

Geographical distribution of revenue for the years ended December 31, 2019 and 2018 were:

	2019	2018
United Kingdom (including Jersey)	\$ 51,245,455	\$ 46,028,675
United States of America	40,436,436	34,036,944
Australia	29,076,739	23,866,954
Canada	7,505,896	7,812,788
Switzerland	2,741,683	3,375,706
Ireland	1,533,116	1,334,396
Singapore	1,055,196	832,821
Total Net Revenue	\$ 133,597,521	\$ 117,288,284

The Company's reporting currency is the U.S. dollar. The functional currency of each foreign subsidiary reflects the native official currency of the respective foreign country in which a subsidiary is incorporated.

SETTLEMENTS RECEIVABLE AND PAYABLE

Settlements receivable and settlements payable represent amounts from unsettled or in-process same currency transactions. The Company recognizes settlements receivable and settlements payable on a trade date basis.

DERIVATIVE ASSETS AND LIABILITIES

The Company enters into foreign currency spot, forward and option contracts with customers and financial institutions that allow the Company, in the case of spots and forwards, to either buy or sell currency at a future date at a pre-determined price assessed on the date of the contract, and in the case of foreign currency options, offer its customers more tailored products to meet their foreign exchange risk management objectives.

The Company enters into derivative contracts to generate Foreign Currency Exchange Services revenue and to reduce, or economically hedge, the variability related to fair value movements and future cash settlement obligations. The derivatives entered into by the Company generally have terms no greater than one year. The credit risk associated with derivative contracts is mitigated through procedures such as customer credit checks, requiring receipt of funds from customers before releasing an associated payment and the holding of counterparty collateral.

The fair values of the Company's derivatives are derived from standardized models that use market-based inputs (e.g., forward prices for foreign currency). The Company recognizes and accounts for derivative assets and liabilities on a trade date basis. The Company recognizes its derivatives in the Derivative assets, spots and forwards; Derivative assets, options; Derivative liabilities, spots and forwards; and Derivative liabilities, options lines on its Consolidated Balance Sheets and presents them at their fair value, netted by counterparty.

ASSOCIATED FOREIGN EXCHANGE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION

The Company's revenues are derived primarily from Foreign Currency Exchange Services and Transaction Fees received from customers.

Foreign Currency Exchange Services Revenue

Foreign Currency Exchange Services revenue includes:

- a. Profit spreads on foreign currency spot and forward contracts entered into with customers – these spreads represent the difference between the exchange rates offered by the Company to its customers and the exchange rates available to the Company through wholesale foreign exchange markets
- b. Premiums earned on derivative option contracts with customers and financial institutions
- c. Mark to market fair value movements of spot, forward and options contracts open as at balance date relating to customers and financial institutions.

The term of the derivative contracts entered into by the Company is generally less than one year. In addition to transactions with customers, the Company also buys and sells foreign currency contracts with a small number of large financial institutions to economically hedge its derivative contracts held with customers. These foreign currency contracts offset foreign exchange rate fluctuations from customer positions, and form part of the Company's broad portfolio of foreign currency assets and liabilities which are part of AFEX's global cross-currency payment operations.

Transaction Fees

On January 1, 2019, the Company adopted a new accounting standard, ASC 606 *Revenue From Contracts With Customers*, as amended. This standard provides guidance on recognizing revenue, including a five-step model to determine when revenue recognition is appropriate. ASC 606 does not apply to the financial instruments through which the Company generates most of its revenue (see the *Foreign Currency Exchange Service Revenue* section above).

The new standard applies to the Company's Transaction Fee revenue stream, and requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Transaction fee revenue is earned through standard rates being charged to customers for the processing and transmitting of payments and financial transactions and is recognized on a trade date basis. The impact on Transaction Fee revenue as a result of the adoption of the new revenue standard is immaterial.

ASSOCIATED FOREIGN EXCHANGE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FOREIGN CURRENCY TRANSLATION & REMEASUREMENT

The Company translates the assets and liabilities of its non-U.S. dollar functional currency subsidiaries into U.S. dollars using exchange rates in effect at the end of each period. Revenue and expenses for these subsidiaries are translated using rates that approximate those in effect during the period.

The accounting differences generated through these two translation approaches are recognized in Accumulated Other Comprehensive Income in the Consolidated Balance Sheets, the Consolidated Statements of Shareholder's Equity and through the Foreign Currency Translation Adjustment line of the Consolidated Statements of Comprehensive Income. The balance of Accumulated Other Comprehensive Income as at December 31, 2019 and 2018 is derived exclusively from foreign currency translation adjustments.

PROPERTY, EQUIPMENT AND IMPROVEMENTS

Property, equipment and improvements are stated at historical cost, net of accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, which range from 3 to 10 years. Leasehold improvements are amortized using the straight-line method over the shorter of the remaining lease term or the estimated useful lives of the improvements. Expenditures that materially increase an asset's life are capitalized while ordinary maintenance and repairs are recognized as expenses in the Consolidated Statements of Comprehensive Income. Costs related to internally-developed software are expensed or capitalized depending on the nature of the cost and the stage of development.

The Company capitalizes internally-developed software costs on a project-by-project basis. All costs to establish the technological feasibility of computer software development are expensed as incurred. Internally-developed software development costs are carried at the lower of unamortized cost or net realizable value and are amortized based on the estimated useful life of the software which has been determined to be 10 years. Amortization over the estimated useful life begins when the software is ready for its intended use and has been placed in service.

GOODWILL

The Company has elected to use the private company goodwill accounting model which allows it to apply a simplified, trigger based impairment test (conducted at a minimum annually) and to amortize goodwill over a period of no greater than 10 years (the Company uses 10 years). In addition, the Company has elected to use an entity-wide reporting unit as the basis for assessing its goodwill for impairment.

	2019	2018
Goodwill, gross	\$8,917,112	\$8,141,544
Accumulated amortization	(4,696,046)	(3,661,053)
Net Goodwill	\$4,221,066	\$4,480,491

ASSOCIATED FOREIGN EXCHANGE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For the year ended December 31, 2019 amortization expense amounted to \$840,692 (2018: \$867,305). The weighted average amortization period for the remaining goodwill is five years (2018: six years) and the estimated amortization expense for each of the next five years is \$844,213 (2018: \$867,305).

IMPAIRMENT OF INTANGIBLE AND LONG-LIVED ASSETS

The Company periodically evaluates the carrying value of its intangible assets used in operations, including amortizable goodwill, when indicators of impairment are present. In the event a condition is identified that may indicate an impairment issue, an assessment is performed using a variety of methodologies, including analysis of undiscounted future cash flows, estimate of sales proceeds and independent appraisals. If the carrying value is determined to be unrecoverable from future operating cash flows, the asset is deemed impaired and an impairment loss would be recognized to the extent the carrying value exceeded the estimated fair value of the asset. Management determined that there was no impairment of long-lived assets, including goodwill, during the years ending, and as of, December 31, 2019 and December 31, 2018.

INCOME TAXES

The Company, with the consent of its shareholder, has elected to be taxed as an "S" corporation for Federal purposes, as well as for states that permit "S" corporation status. In lieu of corporate income taxes, the shareholder of the "S" corporation is taxed on the proportionate share of the Company's taxable income. Accordingly, no US Federal provision or tax liability has been included in the consolidated financial statements for these jurisdictions. The Company remains liable for corporate taxes in certain US states and territories where it is registered. The Company is also subject to income taxes in foreign jurisdictions as assessed based on the taxable income of each of its foreign subsidiaries.

The following table presents the components of the provision for income taxes for the year ended December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
U.S. Federal	\$ -	\$ -
U.S. State	585,780	279,224
Foreign	<u>1,792,329</u>	<u>477,261</u>
Total Provision for Income Taxes	\$ <u>2,378,109</u>	\$ <u>756,485</u>

As of December 31, 2019, the Company recognized deferred tax assets of \$1,539,743 (2018: \$1,122,893) and deferred tax liabilities of \$67,566 (2018: \$0), presented on a net basis in Other Assets, non-current, and \$940,170 (2018: \$0) current income taxes payable in Accounts Payable and Accrued Expenses.

The Company recognizes the impact of a tax position in its consolidated financial statements if the position is more likely than not to be sustained upon examination and on the technical merits of the position. The Company did not have any unrecognized tax benefits as of December 31, 2019 and 2018. The Company does not anticipate any material change in the total amount of unrecognized tax benefits will occur within the next twelve months.

ASSOCIATED FOREIGN EXCHANGE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Company's practice is to recognize interest and/or penalties related to income tax matters in the provision for income taxes. The Company had no accrual for interest or penalties on the Company's Consolidated Balance Sheets at December 31, 2019 and 2018, and consequently has not recognized interest and/or penalties in the Consolidated Statements of Comprehensive Income for the years ended December 31, 2019 and 2018. The shareholder has the right to declare and receive distributions up to the amount of the S corporation earnings without incurring any additional personal income taxes.

NOTE 3 - FAIR VALUE MEASUREMENTS

Fair value is defined as the exchange price that would be received for an asset or paid to settle a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value should maximize the use of observable inputs and minimize the use of unobservable inputs.

The Company utilizes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value. This hierarchy is as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The carrying values of financial instruments, which include cash and cash equivalents, accounts receivable, prepaid expenses, accounts payable and accrued expenses, approximate fair value due to their short-term maturities and the relatively stable interest rate environment. Financial instruments that are recognized on the Consolidated Balance Sheets under fair value accounting models, which include certificates of deposit, investments, and derivative assets and liabilities, are presented in the table below.

Financial instruments are recorded on a trade-date basis, and changes in the fair value of financial instruments are recognized in earnings as part of Foreign Currency Exchange Services revenue in the Consolidated Statements of Comprehensive Income.

The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs for those financial instruments presented at fair value on its Consolidated Balance Sheets. The following tables summarize the financial instruments carried at fair value:

ASSOCIATED FOREIGN EXCHANGE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2019 AND 2018

NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)

2019	Level 1	Level 2	Level 3	FV as of December 31, 2019
Assets				
Foreign Currency Spot & Forward Contracts	\$ -	\$ 29,589,631	\$ -	\$ 29,589,631
Foreign Currency Option Contracts	-	36,443,227	-	36,443,227
Investments (Time Deposits & Mutual Funds)	1,054,947			1,054,947
Liabilities				
Foreign Currency Spot & Forward Contracts	-	13,872,498	-	13,872,499
Foreign Currency Option Contracts	-	36,443,227	-	36,443,227

2018	Level 1	Level 2	Level 3	FV as of December 31, 2018
Assets				
Foreign Currency Spot & Forward Contracts	\$ -	\$ 28,822,906	\$ -	\$ 28,822,906
Foreign Currency Option Contracts	-	18,958,727	-	18,358,727
Investments (Time Deposits & Mutual Funds)	1,029,067			1,029,067
Liabilities				
Foreign Currency Spot & Forward Contracts	-	12,068,476	-	12,068,476
Foreign Currency Option Contracts	-	18,958,727	-	18,958,727

Changes in unrealized gains and losses to financial assets or liabilities, measured at fair value, still held at the end of the period are reported in Foreign Currency Exchange Services revenue in the Consolidated Statements of Comprehensive Income. The risks or volatility associated with the transactions that make up this amount are often offset or reduced by certain economic hedging strategies associated with other derivatives within the same fair value hierarchy. The Company often enters into positions with customer counterparties which are then economically hedged, either on a one-for-one or a portfolio basis, with off-setting positions with other counterparties (i.e., financial institutions).

NOTE 4 - DERIVATIVES

The following table presents the Company's derivative assets and liabilities by counterparty net of amounts available for offset under master netting arrangements or similar agreements ("MNA") as of December 31, 2019 and as of December 31, 2018. Note that 'Customers' positions in the table below have been netted at the individual customer level and then aggregated for presentational purposes:

ASSOCIATED FOREIGN EXCHANGE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2019 AND 2018

NOTE 4 – DERIVATIVES (CONTINUED)

2019

Derivatives	Assets \$	Liabilities \$
Foreign Currency Spot and Forward Contracts	\$ 29,589,631	\$ 13,872,499
Foreign Currency Options Contracts	\$ 36,443,227	\$ 36,443,227
Total derivative Assets and Liabilities as presented in the Consolidated Balance Sheets	\$ 66,032,858	\$ 50,315,726
Derivatives not subject to an MNA	-	-
Total derivative assets and liabilities subject to an MNA	\$ 66,032,858	\$ 50,315,726

Derivative Assets

Counterparty	Derivative Assets subject to MNA by counterparty \$	Derivatives Available for Offset \$	Net Amount of Derivative Assets \$
Australia and New Zealand Bank	107,724	-	107,724
Barclays Bank Plc	381,360	(381,360)	-
Bank of America NA	919,505	(919,505)	-
Citibank, NA	4,711,082	(4,711,082)	-
Deutsche Bank AG	17,020,755	(17,020,755)	-
Macquarie Bank Ltd. (AU)	1,153,754	(1,153,754)	-
Macquarie Bank Ltd. (US)	169,968	(169,968)	-
Nomura International Plc (US)	2,338,813	(2,338,813)	-
Nomura International Plc (UK)	1,058,366	(1,058,366)	-
Royal Bank of Scotland Plc	4,983,840	(4,983,840)	-
Customers	86,287,789	(20,362,656)	65,925,134
Total	\$ 119,132,956	\$ (53,100,098)	\$ 66,032,858

Derivative Liabilities

Counterparty	Derivative Liabilities subject to MNA by counterparty \$	Derivatives Available for Offset \$	Net Amount of Derivative Liabilities \$
Australia and New Zealand Bank	-	-	-
Barclays Bank Plc	(971,136)	381,360	(589,776)
Bank of America NA	(1,209,500)	919,505	(289,995)
Citibank, NA	(9,886,537)	4,711,082	(5,175,454)
Deutsche Bank AG	(35,344,449)	17,020,755	(18,323,694)
Macquarie Bank Ltd. (AU)	(3,997,923)	1,153,754	(2,844,170)
Macquarie Bank Ltd. (US)	(610,220)	169,968	(440,252)
Nomura International Plc (US)	(3,205,394)	2,338,813	(866,580)
Nomura International Plc (UK)	(2,298,107)	1,058,366	(1,239,741)
Royal Bank of Scotland Plc	(10,904,645)	4,983,840	(5,921,005)
Customers	(34,987,713)	20,362,656	(14,625,058)
Total	\$ (103,415,824)	\$ 53,100,098	\$ (50,315,726)

ASSOCIATED FOREIGN EXCHANGE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2019 AND 2018

NOTE 4 – DERIVATIVES (CONTINUED)

2018

Derivatives	Assets \$	Liabilities \$
Foreign Currency Spot and Forward Contracts	\$ 28,822,906	\$ 12,068,476
Foreign Currency Options Contracts	\$ 18,958,727	\$ 18,958,727
Total derivative Assets and Liabilities as presented in the Consolidated Balance Sheets	\$ 47,781,633	\$ 31,027,203
Derivatives not subject to an MNA	-	-
Total derivative assets and liabilities subject to an MNA	\$ 47,781,633	\$ 31,027,203

Derivative Assets

Counterparty	Derivative Assets subject to a MNA by counterparty	Derivatives Available for Offset	Net Amount of Derivative Assets
Australia and New Zealand Bank	-	-	-
Barclays Bank Plc	1,237,434	(348,367)	889,067
Bank of America NA	5,840,497	(5,013,903)	826,594
Deutsche Bank AG	23,524,870	(15,780,414)	7,744,456
Nomura International Plc (US)	3,148,924	(2,669,979)	478,945
Nomura International Plc (UK)	1,044,366	(1,041,678)	2,690
Royal Bank of Scotland	4,819,542	(4,413,631)	405,911
Macquarie Bank Ltd. (US)	222,451	(222,451)	-
Macquarie Bank Ltd. (AU)	1,577,531	(1,016,117)	561,414
Customers	59,148,816	(22,276,260)	36,872,556
Total	\$ 100,564,433	\$ (52,782,800)	\$ 47,781,633

Derivative Liabilities

Counterparty	Derivative Liabilities subject to a MNA by counterparty	Derivatives Available for Offset	Net Amount of Derivative Liabilities
Australia and New Zealand Bank	-	-	-
Barclays Bank Plc	(348,367)	348,367	-
Bank of America NA	(5,078,641)	5,013,903	(64,738)
Deutsche Bank AG	(25,550,836)	15,780,414	(9,770,422)
Nomura International Plc (US)	(4,058,159)	2,669,979	(1,388,180)
Nomura International Plc (UK)	(1,313,810)	1,041,678	(272,132)
Royal Bank of Scotland	(5,988,565)	4,413,631	(1,574,934)
Macquarie Bank Ltd. (US)	(845,132)	222,451	(622,681)
Macquarie Bank Ltd. (AU)	(1,016,117)	1,016,117	-
Customers	(39,610,376)	22,276,260	(17,334,116)
Total	\$ (83,810,003)	\$ 52,782,800	\$ (31,027,203)

ASSOCIATED FOREIGN EXCHANGE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2019 AND 2018

NOTE 4 – DERIVATIVES (CONTINUED)

The Company has posted collateral balances for the year ended December 31, 2019 and 2018. These collateral balances are presented below and are excluded from the netted derivative fair values outlined in the tables above.

	2019	2018
Australia and New Zealand Bank	\$ 841,800	\$ 423,060
Bank of America	130,000	(990,000)
Barclays Bank	930,000	1,540,000
Citibank	4,020,000	-
Deutsche Bank	30,331,919	7,875,151
Macquarie (AU)	3,027,000	-
Nomura (US)	1,590,000	1,670,000
Royal Bank of Scotland	5,973,072	1,449,675
Total	\$ 46,843,791	\$ 11,967,886

The Company also holds certain customer monies that have been classified as collateral balances, \$13,903,877 as of the year-ended December 31, 2019 (2018: \$9,056,966). These amounts represent prepayment of future currency amounts that may or will be due from a customer. These prepayments have not been netted against the fair value of customer positions in the tables above.

The Company's derivative activity as presented in the accompanying Consolidated Balance Sheets is not representative of the level of derivative exposure experienced by the Company during the year ended December 31, 2019. For the year ended December 31, 2018, the activity as presented in the accompanying Consolidated Balance Sheets was also not representative of the level of derivative exposure experienced during the period.

The Company's derivative contracts with financial institutions are governed by International Swap Dealers Association agreements. These agreements include provisions which may require collateral to be posted by the Company at little notice, and the agreements may also be terminated in certain circumstances. Changes to the Company's derivative agreements with certain financial institutions may have significant impact on the Company's operations.

NOTE 5 – TRANSACTIONS WITH RELATED PARTIES

In the ordinary course of business, certain transactions are executed between the Company and related parties under common control, and affiliates under common ownership. These transactions primarily involve the settlement of trades and the payment of certain revenues due to, and expenses incurred on behalf, of the Company. These transactions are generally short-term in nature.

In 2012, the Company entered into an agreement with a related party to lease office space for the Company's headquarters in Woodland Hills, California. The lease term expires in the year 2022. During the year ended December 31, 2019, the Company incurred \$645,932 (2018: \$627,119) of rent expense in connection with this lease (See Note 10, Commitments and Contingencies).

ASSOCIATED FOREIGN EXCHANGE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2019 AND 2018

NOTE 5 – TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

In 2013, the Company entered into a \$670,000 irrevocable standby letter of credit on behalf of a related party company in relation to a workers' compensation guarantee. This standby letter of credit remained in effect as of December 31, 2019.

In March 2014, the Company entered into a promissory note with an employee for \$40,000. The note bears no interest and was due on December 31, 2019. As of December 31, 2019, \$12,652 (2018: \$6,048) was repaid. As of December 31, 2019, the Company had no employee loan amounts (2018: \$12,952).

During the year ended December 31, 2019, the Company made payments of \$5,443,584 (2018: \$4,318,101) to AFEX Holdings and has a net payable of \$10,560,634 (2018: \$12,194,228) due to AFEX Holdings as of December 31, 2019.

The Company has a \$42,755 (2018: \$20,620 net receivable) net payable balance to its foreign affiliate in Indonesia as of December 31, 2019.

The Company provides foreign currency exchange services on behalf of related parties under common control with its shareholder. The Company incurred \$4,487 (2018: \$4,927) in expenses from a related party for armored car transportation services. The Company incurred \$923,446 (2018: \$805,424) in expenses for payments made to a related party for management fees and expense reimbursements.

These related party payments are included as expenses in the accompanying Consolidated Statements of Comprehensive Income.

NOTE 6 - PROPERTY, EQUIPMENT AND IMPROVEMENTS, NET

Property, equipment and improvements consist of the following:

	2019	2018
Computers, equipment and software	\$ 24,560,388	\$ 22,798,971
Software under development	3,181,403	2,446,483
Leasehold improvements	3,730,331	3,638,353
Equipment and furniture	2,098,118	1,903,545
Automobile	<u>175,686</u>	<u>172,257</u>
	\$ 33,745,926	\$ 30,959,609
Less: accumulated depreciation	<u>(19,986,054)</u>	<u>(16,293,377)</u>
Property, Equipment and Improvements, Net	<u>\$ 13,759,872</u>	<u>\$ 14,666,232</u>

Depreciation expense amounted to \$3,599,240 for the year ended December 31, 2019 (2018: \$3,372,442).

ASSOCIATED FOREIGN EXCHANGE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2019 AND 2018

NOTE 7 – SHAREHOLDER'S EQUITY

During the year ended December 31, 2019, the Company made distributions to its shareholder of \$3,885,251 (2018: \$2,838,935). As of December 31, 2019 and 2018, there were no unpaid balances included in the accompanying Consolidated Balance Sheets.

NOTE 8 - LINE OF CREDIT, BANK

On July 21, 2017, the Company entered into a credit arrangement with a commercial bank that provides for borrowings up to \$50,000,000. This credit facility is secured by the personal assets of the AFEX Holdings' shareholders and has a maturity date of July 1, 2020. All outstanding amounts under the credit facility are due at maturity. The annual interest rate is equal to the bank's Reference Rate less 100 basis points, but not less than 0.0%. As of December 31, 2019, the Company's available line of credit balance was \$50,000,000 (2018: \$50,000,000). There are no restrictive covenants in relation to this credit facility.

NOTE 9 - EMPLOYEE BENEFIT PLANS

The Company sponsors a 401(k) plan covering substantially all its full-time employees in the United States. Participants may contribute up to 50% of their gross annual compensation, not to exceed the mandatory limit defined by the Internal Revenue Code (the "Code"). The Company makes discretionary contributions up to 1.5% of the employee's gross annual compensation with an annual limit of \$1,600.

The Company provides access to a defined contribution pension plan for all of its full-time employees in the UK. The assets of the plan are held separately from those of the Company in independently administered funds. The amount charged to expense represents the contributions payable to the plan in respect of the financial year.

The Company also has a Nonqualified Deferred Compensation Plan (the "Plan") which is intended to comply with the requirements under Section 409A (Nonqualified Deferred Compensation Plans) of the Code. The Plan allows for employee deferrals and also allows the Company to make discretionary contributions. The Company did not make any discretionary contributions to the Plan in 2019 (2018: nil). The contributions are invested in mutual funds managed by a third party and are included in investments on the Consolidated Balance Sheets. The Company records investment earnings on a trade date basis. As of December 31, 2019, the Company reported plan assets of \$146,195 (2018: \$115,651) and plan liabilities of \$100,393 (2018: \$90,051).

NOTE 10 - COMMITMENTS AND CONTINGENCIES

OPERATING LEASES

The Company leases office space under various operating lease agreements, including an agreement with a related party (See Note 5, Transactions with Related Parties). The lease terms expire on various dates through the year 2025. Certain lease agreements contain provisions for rent escalations during the lease terms.

ASSOCIATED FOREIGN EXCHANGE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2019 AND 2018

NOTE 10 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

At December 31, 2019, future minimum rentals under these leases are as follows:

Year Ending December 31,	Related Party	Other	Total
2020	\$ 664,139	\$ 4,198,097	\$ 4,862,236
2021	684,063	3,627,461	4,311,524
2022	645,870	2,635,633	3,281,503
2023	-	1,423,206	1,423,206
2024	-	694,289	694,289
Thereafter	-	503,020	503,020
Total	\$ 1,944,072	\$ 13,081,706	\$ 15,075,778

Building rent expense amounted to \$4,316,814 for the year ended December 31, 2019 (2018: \$4,334,784).

SURETY BONDS

The Company is regulated by various US state banking regulators as an MSB. In connection with these regulations, the Company maintains \$25,420,000 (2018: \$19,409,000) of surety bonds in various US states with maturity dates extending through December 2020, for the benefit of its customers. The proceeds from these bonds are to be used only in the event of insolvency or bankruptcy of the Company. During the year ended December 31, 2019, the Company did not receive proceeds from surety bonds (2018: nil).

LITIGATION

The Company is subject to various legal actions that arise in the normal course of business. In the opinion of the Company's management, there are no material legal actions pending or threatened which would have a materially adverse effect on the Company's Consolidated Balance Sheets.

In the normal course of business, the Company enters into contracts that contain certain representations, warranties and indemnifications. The Company's exposure under these arrangements would involve future claims that have not yet been asserted. Inasmuch as no such claims currently exist or are expected to arise, the Company has not accrued any liability in connection with these representations, warranties and indemnifications.

NOTE 11 - SUBSEQUENT EVENTS

The coronavirus ("COVID-19") pandemic has resulted in significant financial market volatility and uncertainty. Due to the impact of COVID-19 a global economic slowdown is evolving and may result in an increase in delayed or delinquent payments from customers, an increase in credit losses, or may result in additional requirements from certain banking counterparties to post additional collateral. As this situation evolves, the Company continues to monitor the potential impact of the COVID-19 pandemic and will take appropriate action as needed.

ASSOCIATED FOREIGN EXCHANGE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2019 AND 2018

NOTE 11 - SUBSEQUENT EVENTS (CONTINUED)

On March 23, 2020 the Company withdrew \$25,000,000 on its outstanding credit facility as described in Note 8.

On March 27, 2020, the Company became aware of a client receivable related to one of its customers whereby the client is no longer able to meet its obligations in full under previously held hedging contracts as a result of financial distress caused by the recent COVID-19 pandemic. The outstanding receivable balance due to the Company as of the date of this report approximates \$10.9 million. Assets recorded by the Company at December 31, 2019 related to this client approximated \$0.5 million and collateral of approximately \$0.2 million. The Company is actively working with the client to enter into an agreement to obtain partial recovery of the outstanding receivable balance. The maximum loss exposure to the Company as of the date of this report approximates \$10.9 million if the Company is unable to recover any partial amounts from the client.

The Company evaluated subsequent events through March 30, 2020, the date the consolidated financial statements were available to be issued and determined that, except for the above, there were no material recognizable or non-recognizable subsequent events.