

**ALAFCO Aviation Lease and Finance
Company K.S.C.P. and Subsidiaries**
CONSOLIDATED FINANCIAL STATEMENTS
30 SEPTEMBER 2019

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ALAFCO AVIATION LEASE AND FINANCE COMPANY K.S.C.P.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of ALAFCO Aviation Lease and Finance Company K.S.C.P. (the "Parent Company") and its subsidiaries (collectively the "group"), which comprise the consolidated statement of financial position as at 30 September 2019, and the consolidated statement of income, 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 accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the group as at 30 September 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those 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 *International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)*, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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 year. 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ALAFCO AVIATION LEASE AND FINANCE COMPANY K.S.C.P. (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

a) Impairment of aircraft and engines

As at 30 September 2019, aircraft and engines are carried at KD 876,397,490 as disclosed in note 4. The impairment test of aircraft and engines performed by the management is significant to our audit due to the size of the assets' carrying value as well as the judgement involved in the assessment of recoverable amounts of aircraft and engines, which are based on value-in-use or fair value less costs to sell. Value-in-use basis is complex and requires considerable judgment on the part of management such as estimates of future cash flows and discount rate variables which includes risk free rate, equity risk premium, beta in the relevant industry sector and estimation of cost of debt based on the group's total debt/equity balances. Fair value less costs of sell is based on models adopted by the management using published reports of aircraft values. The published reports of aircraft values include the value of aircrafts in the current year considering the model and date of manufacturing of each aircraft. Therefore, we identified the impairment testing of aircraft and engines as a key audit matter.

Our audit procedures to assess the impairment testing of aircraft and engines included the following:

- Assessing the knowledge and expertise of the management of the group to perform such impairment assessment;
- Evaluating and challenging the key assumptions and methodologies used by the management;
- Assessing the appropriateness of the valuation technique used and evaluating the key assumptions used by the management in determining the fair value less costs to sell which includes benchmarking the fair value with the published reports of aircraft values;
- Assessing the appropriateness of discount rates used by management to determine the value-in-use with the help of our internal specialist by reference to externally available data taking into account regional and industry specific risk premiums;
- Assessing the reasonability of estimated future cash flows based on the recent lease agreement of each aircraft and the related lease income;
- Comparing the assumptions adopted in the prior year's impairment assessments with actual results for the current year, and investigating significant variances identified and considering the impact on the current year's impairment assessments.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ALAFCO AVIATION LEASE AND FINANCE COMPANY K.S.C.P. (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

b) Aircraft heavy maintenance provisions

The group is contractually committed to deliver certain existing aircrafts to lessees in a certain condition agreed with the lessees. Management estimates the maintenance costs and the costs associated with the overhaul/restitution of major components of aircraft such as engines and life-limited parts as per operating lease agreements. The calculation of such costs includes a number of variable factors and assumptions, including the anticipated utilisation of the aircraft, cost of maintenance and the remaining lifespan of the engines/life-limited parts at the time when the aircrafts would be delivered to the new lessees. Heavy maintenance provisions for aircraft maintenance costs aggregated to KD 23,780,415 as at 30 September 2019 and are included within maintenance reserve and provisions in the consolidated statement of financial position. We have identified the assessment of aircraft heavy maintenance provisions as a key audit matter because of the inherent level of complex and subjective management judgements required in assessing the variable factors and assumptions in order to quantify the provision amounts.

Our audit procedures to assess aircraft heavy maintenance provisions included the following:

- Evaluating the provisioning model, methodology and key assumptions adopted by management in estimating the provisions and any changes therein by reviewing the terms of the new operating lease agreements and comparing assumptions to contract terms;
- Discussing with engineering department responsible for aircraft engineering the estimated utilization and expected remaining useful lives of life-limited parts of the aircraft at the time of delivery to new lessee. Further, we consider the consistency of the provisions with the engineering department's assessment of the condition of aircraft.
- Performing a retrospective review of aircraft maintenance provisions to evaluate whether the judgement and decisions made by management in estimating the provisions in the prior year indicated possible management bias.

Other information included in the group's 2019 Annual Report

Management is responsible for the other information. Other information consists of the information included in the group's 2019 Annual Report, other than the consolidated financial statements and our auditor's report thereon. We obtained the report of the Parent Company's Board of Directors, prior to the date of our auditor's report, and we expect to obtain the remaining sections of the group's 2019 Annual Report after the date of our auditor's report.

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ALAFCO AVIATION LEASE AND FINANCE COMPANY K.S.C.P. (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Other information included in the group's 2019 Annual Report (continued)

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above 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 on the other information that we obtained prior to the date of this auditor's report, 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.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs and for such internal control as management 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, management 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 management either intends to liquidate the group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the group's financial reporting process.

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 ISAs 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 based on these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism 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.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ALAFCO AVIATION LEASE AND FINANCE COMPANY K.S.C.P. (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- 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 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 by management.
- Conclude on the appropriateness of management's 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ALAFCO
AVIATION LEASE AND FINANCE COMPANY K.S.C.P. (continued)**

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion, proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No 1 of 2016 as amended, and its executive regulations, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No 1 of 2016 as amended, and its executive regulations, as amended, nor of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 30 September 2019 that might have had a material effect on the business of the Parent Company or on its financial position.



BADER A. AL-ABDULJADER
LICENCE NO. 207 A
EY
AL AIBAN, AL OSAIMI & PARTNERS

3 November 2019
Kuwait

ALAFCO Aviation Lease and Finance Company K.S.C.P. and Subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2019

	Notes	2019 KD	2018 KD
ASSETS			
Aircraft, engines and equipment	4	876,397,490	829,509,062
Capital advances	5	304,396,402	237,501,172
Receivables		8,793,145	8,906,295
Cash and cash equivalents	6	93,441,271	47,520,835
TOTAL ASSETS		1,283,028,308	1,123,437,364
EQUITY AND LIABILITIES			
EQUITY			
Share capital	7	95,209,348	95,209,348
Share premium	7	17,829,167	17,829,167
Statutory reserve	8	29,571,005	27,666,075
Foreign currency translation reserve		14,929,164	13,959,649
Retained earnings		161,711,950	156,759,199
TOTAL EQUITY		319,250,634	311,423,438
LIABILITIES			
Due to financial institutions	9	786,512,749	631,159,564
Security deposits	10	10,798,519	10,916,966
Maintenance reserve and provisions	11	149,668,892	153,079,598
Other liabilities	12	16,797,514	16,857,798
TOTAL LIABILITIES		963,777,674	812,013,926
TOTAL EQUITY AND LIABILITIES		1,283,028,308	1,123,437,364

Ahmed Abdullah Al-Zabin
Chairman of the Board

Abdulwahab Issa Al-Rushood
Board Member

The attached notes 1 to 21 form part of these consolidated financial statements.

ALAFCO Aviation Lease and Finance Company K.S.C.P. and Subsidiaries

CONSOLIDATED STATEMENT OF INCOME

For the year ended 30 September 2019

	Notes	2019 KD	2018 KD
Operating lease income		104,432,913	95,685,005
Murabaha income		799,637	833,353
Gain on disposal of aircraft, engines and equipment	4	7,828,392	29,783,996
Other income		657,810	116,038
Staff costs		(3,104,503)	(3,017,540)
Depreciation	4	(47,833,447)	(43,865,820)
Impairment loss on aircraft, engines and equipment	4	(472,155)	-
Heavy maintenance and re-lease provision	11	-	(17,064,024)
Other operating expenses		(5,724,894)	(4,836,325)
Allowance for credit loss on receivables		(8,826,226)	-
Finance costs		(28,708,231)	(22,174,156)
PROFIT FOR THE YEAR BEFORE CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES (KFAS), NATIONAL LABOUR SUPPORT TAX (NLST), ZAKAT, AND DIRECTORS' FEES		19,049,296	35,460,527
Contribution to KFAS		(171,444)	(319,145)
NLST		(688,906)	(1,275,196)
Zakat		(275,563)	(510,079)
Directors' fees	16	(217,000)	(180,000)
PROFIT FOR THE YEAR		17,696,383	33,176,107
Basic and diluted earnings per share	3	18.59 fils	34.85 fils

The attached notes 1 to 21 form part of these consolidated financial statements.

ALAFCO Aviation Lease and Finance Company K.S.C.P. and Subsidiaries

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September 2019

	2019 KD	2018 KD
Profit for the year	17,696,383	33,176,107
Other comprehensive income:		
<i>Items that are not reclassified subsequently to consolidated statement of income</i>		
Foreign currency translation adjustments	969,515	1,025,998
Other comprehensive income for the year	969,515	1,025,998
Total comprehensive income for the year	18,665,898	34,202,105

The attached notes 1 to 21 form part of these consolidated financial statements.

ALAFCO Aviation Lease and Finance Company K.S.C.P. and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 September 2019

	Share capital KD	Share premium KD	Statutory reserve KD	Foreign currency translation reserve KD	Retained earnings KD	Total KD
Balance at 1 October 2018 before the adoption of IFRS 9 (Audited)	95,209,348	17,829,167	27,666,075	13,959,649	156,759,199	311,423,438
Transition adjustment on initial application of IFRS 9 (Note 2.2)	-	-	-	-	(1,317,767)	(1,317,767)
Adjusted balance at 1 October 2018	95,209,348	17,829,167	27,666,075	13,959,649	155,441,432	310,105,671
Profit for the year	-	-	-	-	17,696,383	17,696,383
Other comprehensive income for the year	-	-	-	969,515	-	969,515
Total comprehensive income for the year	-	-	-	969,515	17,696,383	18,665,898
Cash dividend (Note 7)	-	-	-	-	(9,520,935)	(9,520,935)
Transfer to statutory reserve (Note 8)	-	-	1,904,930	-	(1,904,930)	-
Balance at 30 September 2019	95,209,348	17,829,167	29,571,005	14,929,164	161,711,950	319,250,634
Balance at 1 October 2017	95,209,348	17,829,167	24,120,022	12,933,651	136,650,080	286,742,268
Profit for the year	-	-	-	-	33,176,107	33,176,107
Other comprehensive income for the year	-	-	-	1,025,998	-	1,025,998
Total comprehensive income for the year	-	-	-	1,025,998	33,176,107	34,202,105
Cash dividend (Note 7)	-	-	-	-	(9,520,935)	(9,520,935)
Transfer to statutory reserve (Note 8)	-	-	3,546,053	-	(3,546,053)	-
Balance at 30 September 2018	95,209,348	17,829,167	27,666,075	13,959,649	156,759,199	311,423,438

The attached notes 1 to 21 form part of these consolidated financial statements.

ALAFCO Aviation Lease and Finance Company K.S.C.P. and Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 September 2019

	Notes	2019 KD	2018 KD
OPERATING ACTIVITIES			
Profit for the year		17,696,383	33,176,107
Adjustments to reconcile profit for the year to net cash flows:			
Depreciation	4	47,833,447	43,865,820
Impairment loss on aircraft, engines and equipment	4	472,155	-
Murabaha income		(799,637)	(833,353)
Finance costs		28,708,231	22,174,156
Allowance for credit loss on receivables		8,826,226	-
Allowance for impairment of receivables		-	264,462
Heavy maintenance and re-lease provision		-	17,064,024
Gain on disposal of aircraft, engines and equipment	4	(7,828,392)	(29,783,996)
		<u>94,908,413</u>	<u>85,927,220</u>
Changes in operating assets and liabilities:			
Receivables		(10,020,109)	(7,314,914)
Other liabilities		998,771	(5,012,956)
Maintenance reserve		8,294,635	3,335,195
		<u>94,181,710</u>	<u>76,934,545</u>
Cash from operations			
Finance costs paid		(28,805,659)	(22,944,881)
Net cash flows from operating activities		<u>65,376,051</u>	<u>53,989,664</u>
INVESTING ACTIVITIES			
Purchase of aircraft, engines and equipment		(150,907,697)	(116,174,735)
Proceeds from disposal of aircraft, engines and equipment		108,406,784	192,093,530
Capital advances for purchase of aircraft, engines and equipment	5	(121,999,878)	(155,071,279)
Murabaha income received		803,222	836,904
Net cash flows used in investing activities		<u>(163,697,569)</u>	<u>(78,315,580)</u>
FINANCING ACTIVITIES			
Proceeds from financing facilities		360,662,600	283,233,045
Repayment of financing facilities		(207,144,562)	(264,587,958)
Dividends paid	7	(9,520,935)	(9,520,935)
Net cash flows from financing activities		<u>143,997,103</u>	<u>9,124,152</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		<u>45,675,585</u>	<u>(15,201,764)</u>
Foreign currency adjustment		244,851	735,585
Cash and cash equivalents at the beginning of the year		47,520,835	61,987,014
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	6	<u>93,441,271</u>	<u>47,520,835</u>

The attached notes 1 to 21 form part of these consolidated financial statements.

1 INCORPORATION AND PRINCIPAL ACTIVITIES

ALAFCO Aviation Lease and Finance Company K.S.C.P. (ALAFCO) (the “parent company”) is a Kuwaiti shareholding company registered and incorporated in Kuwait on 21 March 2000. The parent company is engaged in providing service to buy aircraft and other related assets on behalf of the aviation companies, coordinating with factories, providing asset management services to different aviation companies, providing operating lease or financing lease services commensurate with the needs and desires of aviation company customers, providing project financing to buy aircraft wholly or partly in light of the evaluation studies and the renewal of risk factors associated with such projects, marketing of aircraft to meet the needs of medium-and long-term for aviation companies wishing with such services, assisting aviation companies in the marketing of their aircraft through selling and leasing, participation in providing services associated with financing and providing technical support to aviation companies, assistance in the joint investment operations and specialized in aviation industry, Wholly or partly investment in providing aircraft, engines and spare parts as appropriate to needs of aviation companies and factories customers, and Management and investment of revenues generated and collected from the above-mentioned operations. The parent company may have an interest or to participate in any aspect in other entities conducting similar activities or which may assist in achieving its objectives in Kuwait or abroad and it may establish, participate or buy these bodies or in their equity.

The parent company operates in accordance with the Islamic Sharia’a principles. The parent company’s registered head office is at Kuwait Chamber of Commerce and Industry Building Annexe, Third Floor, Abdul Aziz Hamid Al Sagar Street, Al-Mirqab, Kuwait.

The shares of the parent company are listed on Boursa Kuwait.

The parent company is an associate of Kuwait Finance House K.S.C.P. (“the Bank”).

The consolidated financial statements include transactions and balances of the parent company and wholly owned Special Purpose Companies (SPC’s) (its subsidiaries), together referred to as the “group”. All the transactions of SPC’s are entered on behalf of ALAFCO and are guaranteed by ALAFCO.

The consolidated financial statements of the group for the year ended 30 September 2019 were authorised for issue in accordance with a resolution of the board of directors on 3 November 2019 and are issued subject to the approval of the Annual General Assembly of the Shareholders’ of the parent company. The Annual General Assembly of the Shareholders has the power to amend these consolidated financial statements after issuance.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES

2.1 BASIS OF PREPARATION

The consolidated financial statements of the group have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”).

The consolidated financial statements are prepared under the historical cost convention.

The functional currency of the parent company is US dollars (“USD”). The consolidated financial statements have been presented in Kuwaiti Dinars (“KD”).

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New and amended standards and interpretations

The group applied, for the first time, certain standards and amendments, which are effective for annual periods beginning on or after 1 October 2018. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time during the year ended 30 September 2019, but do not have an impact on the consolidated financial statements of the group. The group has not early adopted any standards, interpretations or amendments that have been issued, but are not yet effective.

IFRS 15: Revenue from Contracts with Customers

The group has adopted IFRS 15 *Revenue from Contracts with Customers* with effect from 1 October 2018 using a modified retrospective method of adoption by not restating the comparative information.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

New and amended standards and interpretations (continued)

IFRS 15: Revenue from Contracts with Customers (continued)

IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires relevant disclosures.

The overall impact assessment in application of IFRS 15 for the group has been carried out by the management based on comprehensive analysis to evaluate implications on adopting IFRS 15 for the group.

Based on its assessment, the group did not have any material impact on the application of IFRS 15 in transition to result in significant impact on its past results. Accordingly, no restatements have been made to the consolidated financial statements despite the adoption of the standard on modified retrospective approach.

IFRS 9: Financial Instruments

The date of initial application (i.e. the date on which the group has assessed its existing financial assets) is 1 October 2018. Accordingly, the group has applied the requirements of IFRS 9 to instruments that have not been derecognised as at 1 October 2018.

IFRS 9 introduces new requirements for a) the classification and measurement of financial assets, b) impairment for financial assets and c) general hedge accounting. Details of these new requirement as well as their impact on the group's consolidated financial statements are described below. The group has not entered into any derivative transactions during the year and not have any outstanding derivative as at date of initial application, hence no related disclosures are included below.

Classification and measurement of financial assets and financial liabilities

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

- ▶ Financial assets such as cash and cash equivalents and receivables that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and profit on the principal amount outstanding, are subsequently measured at amortised cost;
- ▶ There were no financial liabilities which the group has elected to designate at fair value through profit or loss ("FVTPL") at the date of initial application of IFRS 9.

Financial liabilities previously measured at amortised cost under IAS 39 have been classified and measured under IFRS 9 at amortised cost using the effective profit rate method. There have been no changes in the classification and measurement of financial liabilities on the adoption of IFRS 9.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2019

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (continued)**2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)****New and amended standards and interpretations (continued)****IFRS 9: Financial Instruments (continued)*****Impairment of financial assets***

The adoption of IFRS 9 has fundamentally changed the group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the group to record an allowance for ECLs for all debt financial assets not held at FVTPL. The group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The group has established a provision matrix that is based on the group's historical credit loss experience as adjusted for forward-looking factors.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

The group considers a financial asset in default when contractual payment are 120 days past due. However, in certain cases, the group may also consider a financial asset to be in default when internal or external information indicates that the group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the group.

For an explanation of how the group applies the impairment requirements of IFRS 9, refer to the policy under Note 2.5 "Impairment of financial assets".

Impact of initial application of IFRS 9 on equity

The impact of this change in accounting policy as at 1 October 2018 has been to decrease retained earnings by KD 1,317,767 as follows:

	<i>Retained earnings</i> <i>KD</i>
Closing balance under IAS 39 as at 30 September 2018	156,759,199
<i>Impact on recognition of ECL on receivables:</i>	
ECL under IFRS 9 for receivables at amortised cost	(1,317,767)
Opening balance under IFRS 9 on date of initial application as 1 October 2018	<u>155,441,432</u>

No significant changes were noted in financial liabilities as the group classified all its financial liabilities at amortised cost under IAS 39 and the same classification has been carried forward under IFRS 9.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2019

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (continued)**2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)****New and amended standards and interpretations (continued)****IFRS 9: Financial Instruments (continued)****Classification of financial assets on the date of initial application of IFRS 9**

The following table shows reconciliation of original measurement categories and carrying value in accordance with IAS 39 and the new measurement categories under IFRS 9 for the group's financial assets as at 1 October 2018.

	<i>Original classification under IAS 39</i>	<i>New classification under IFRS 9</i>	<i>Original carrying amount under IAS 39 KD</i>	<i>Re- measurement ECL KD</i>	<i>New carrying amount under IFRS 9 KD</i>
Financial assets					
Cash and cash equivalents	Loans and receivables	Amortised cost	47,520,835	-	47,520,835
Receivables	Loans and receivables	Amortised cost	8,906,295	(1,317,767)	7,588,528
Total financial assets			56,427,130	(1,317,767)	55,109,363

Adoption of IFRS 9 did not result in any change in classification or measurement of financial liabilities.

Hedge accounting

The group did not have any impact resulting from the new guidance relating to hedge accounting included in IFRS 9, as the group is not dealing in any derivative instruments.

2.3 STANDARDS ISSUED BUT NOT EFFECTIVE

The standards that are issued but not yet effective, up to the date of issuance of the group's consolidated financial statements are disclosed below. This listing of standards issued is those that the group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The group intends to adopt these standards when they become effective.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the finance cost on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to re-measure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (continued)

2.3 STANDARDS ISSUED BUT NOT EFFECTIVE (continued)

IFRS 16 Leases (continued)

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

The group is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date.

2.4 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the parent company and its subsidiaries (together, the "group") as at 30 September 2019. Control is achieved when the group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the group controls an investee if, and only if, the group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the group has less than a majority of the voting or similar rights of an investee, the group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The group's voting rights and potential voting rights

The group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the group obtains control over the subsidiary and ceases when the group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the group gains control until the date the group ceases to control the subsidiary.

Each component of the consolidated statements of income and comprehensive income are attributed to the equity holders of the parent of the group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in consolidated statement of income. Any investment retained is recognised at fair value.

ALAFCO Aviation Lease and Finance Company K.S.C.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2019

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (continued)

2.4 BASIS OF CONSOLIDATION (continued)

As mentioned in Note 1, the activities of the SPC's are entered on behalf of ALAFCO. The consolidated financial statements include the financial statements of ALAFCO and its subsidiaries ("SPC's") incorporated in Cayman Islands, Cyprus, Ireland, United Kingdom, Delaware (USA) and United Arab Emirates as listed in the following table for the year ended 30 September 2019.

<i>Name</i>	<i>Country of incorporation</i>	<i>Share capital US\$/Euro/ Pound</i>	<i>Activities</i>
Osprey Aircraft Leasing Limited (Thirteen)	Cayman Islands	US\$ 2	Purchasing, financing, leasing and subleasing of aircraft.
Osprey Aircraft Leasing Limited (Fifteen)	Cayman Islands	US\$ 2	Purchasing, financing, leasing and subleasing of aircraft.
Osprey Aircraft Leasing Limited (Sixteen)	Cayman Islands	US\$ 2	Purchasing, financing, leasing and subleasing of aircraft.
Osprey Aircraft Leasing Limited (Seventeen)	Cayman Islands	US\$ 2	Purchasing, financing, leasing and subleasing of aircraft.
Osprey Aircraft Leasing Limited (Eighteen)	Cayman Islands	US\$ 2	Purchasing, financing, leasing and subleasing of aircraft.
Osprey Aircraft Leasing Limited (Nineteen)	Cayman Islands	US\$ 2	Purchasing, financing, leasing and subleasing of aircraft.
Osprey Aircraft Leasing Limited (Twenty One)	Cayman Islands	US\$ 2	Purchasing, financing, leasing and subleasing of aircraft.
Osprey Aircraft Leasing Limited (Twenty Two)	Cayman Islands	US\$ 2	Purchasing, financing, leasing and subleasing of aircraft.
Osprey Aircraft Leasing Limited (Twenty Three)	Cayman Islands	US\$ 2	Purchasing, financing, leasing and subleasing of aircraft.
Osprey Aircraft Leasing Limited (Twenty Four)	Cayman Island	US\$ 2	Purchasing, financing, leasing and subleasing of aircraft.
Mansuria Limited	Cayman Islands	US\$ 2	Purchasing, financing, leasing and subleasing of aircraft.
Qortuba Limited	Cayman Islands	US\$ 2	Purchasing, financing, leasing and subleasing of aircraft.
Alafco Cyprus Aircraft Leasing Limited	Cyprus	Euro 1,000	Purchasing, financing, leasing and subleasing of aircraft.
Alafco Irish Aircraft Leasing Two Limited	Ireland	US\$ 1	Purchasing, financing, leasing and subleasing of aircraft.
Alafco Irish Aircraft Leasing Three Limited	Ireland	US\$ 1	Purchasing, financing, leasing and subleasing of aircraft.
Alafco (DIFC) One SPC Limited	United Arab Emirates	US\$ 1,000	Purchasing, financing, leasing and subleasing of aircraft
Alafco Aviation Lease and Finance Designated Activity Company	Ireland	US\$ 1	Purchasing, financing, leasing and subleasing of aircraft.
Alafco Irish Aircraft Leasing Five Limited	Ireland	US\$ 1	Purchasing, financing, leasing and subleasing of aircraft.
Salwa Aircraft Leasing (One) Limited	Delaware, USA	US \$1,000	Purchasing, financing, leasing and subleasing of aircraft.
Fintas Aviation Leasing UK One Limited	United Kingdom	Pound £1	Purchasing, financing, leasing and subleasing of aircraft.
Fintas Aviation Leasing UK Two Limited	United Kingdom	Pound £1	Purchasing, financing, leasing and subleasing of aircraft.
Fintas Aviation Leasing UK Three Limited	United Kingdom	Pound £1	Purchasing, financing, leasing and subleasing of aircraft.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Aircraft, engines and equipment

Aircraft, engines and equipment are stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on cost less residual value over the estimated useful lives as follows:

- | | |
|---|--|
| • Aircraft and engines (excluding Buyer Furnished Equipment – wide body aircraft) | 20 years (from the date of original manufacture) |
| • Buyer Furnished Equipment (BFE) - wide body aircraft | 12 years (from the date of purchase) |
| • Furniture and fixtures | 5 years |
| • Office equipment | 5 years |

An item of aircraft, engines and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income when the asset is derecognised.

The residual values, useful lives and methods of depreciation of the assets are reviewed and adjusted prospectively, if appropriate.

Cash and cash equivalents

Cash and cash equivalents comprise of cash and balances with financial institutions and short-term murabahas with financial institutions with original maturities of three months or less from the date of placement.

Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Group as lessor

Leases where the group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Group as lessee

Finance leases, which transfer to the group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Any initial direct costs of the lessee are added to the amount recognised as an asset. Initial direct costs are often incurred in connection with specific leasing activities, such as negotiating and securing leasing arrangements. The costs identified as directly attributable to activities performed by the lessee for a finance lease are added to the amount recognised as an asset.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of profit on the remaining balance of the liability. Finance charges are recognised in finance costs in the consolidated statement of income.

Maintenance reserve and provisions

Maintenance reserve and provisions comprise of maintenance reserve, heavy maintenance provision and re-lease provision.

Maintenance reserve

Maintenance reserve represents payments made by the lessee for usage of the aircraft and is offset against actual maintenance expenses as and when incurred on the aircraft. At the time of disposal of aircraft, the remaining balance of maintenance reserve is recognised as income in the consolidated statement of income.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Maintenance reserve and provisions (continued)

Heavy maintenance provision

The heavy maintenance provision represents the heavy maintenance costs associated with the preparation and transition of an aircraft to a new lessee. This includes any costs related to heavy maintenance overhauls not covered by previously collected maintenance reserve. Heavy maintenance provisions are recognised when the group believes it is probable that the costs will be incurred and the amount is reasonably estimated.

Re-lease provision

Re-lease provision represents the group's best estimate of the costs associated with the preparing and transitioning of an aircraft from one lessee to another. These are recognised 2-3 years before the expiry of current lease when the future economic outflow is probable and the amount of the provision can be reliably measured.

Borrowing costs

Borrowing costs are generally expensed as incurred. Borrowing costs are capitalised, if they are directly attributable to a qualifying asset, as part of capital advances over the period of the construction until the aircraft concerned is completed and delivered on the basis of actual borrowings and actual expenditure incurred on the purchase of the aircraft. Capitalisation of borrowing costs ceases when substantially all activities necessary to prepare the aircraft for its intended use are complete.

Foreign currency translation

Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to consolidated statement of income. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

As at the reporting date, the assets and liabilities of the group are translated from the functional currency (US Dollar) into the presentation currency (Kuwaiti Dinars) at the rate of exchange ruling at the reporting date, and the consolidated statement of income items are translated at the average exchange rate for the year. The exchange differences arising on the translation are taken directly to other comprehensive income.

Revenue recognition applied from 1 October 2018

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the group expects to be entitled in exchange for those goods or services. The group has concluded that it is the principal in all of its revenue arrangements since it typically controls the goods or services before transferring them to the customer.

The specific recognition criteria described below must also be met before revenue is recognised.

Sale of aircraft

Revenue from sale of aircraft is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the aircraft.

In determining the transaction price for the sale of aircraft, the group considers the effects of variable consideration, the existence of significant financing components, non-cash consideration and consideration payable to the customer (if any).

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition applied from 1 October 2018 (continued)

Sale of aircraft (continued)

(i) Variable consideration

If the consideration in a contract includes a variable amount, the group estimates the amount of consideration to which it will be entitled in exchange for transferring the aircraft to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. The group has no contracts with a right of return.

(ii) Significant financing component

Generally, the group receives short-term advances from its customers. Using the practical expedient in IFRS 15, the group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised aircraft to the customer and when the customer pays for that aircraft will be one year or less. The group does not receive any long term advances from customers.

Operating lease income

Operating lease income is recognised on a straight line basis in accordance with the lease agreement.

Consultancy and service income

Consultancy and service income is recognised when services are rendered.

Murabaha income

Murabaha income is recognised on effective yield basis.

Revenue recognition applied up to 30 September 2018

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude, and is also exposed to inventory and credit risks. The following specific recognition criteria must also be met before revenue is recognised:

- Operating lease income is recognised on a straight line basis in accordance with the lease agreement.
- Gain on disposal of aircraft is recognised when the significant risks and rewards of ownership of the aircraft have passed to the buyer, usually on delivery of the aircraft.
- Consultancy and service income is recognised when services are rendered.
- Murabaha income is recognised on effective yield basis.

Kuwait Foundation for the Advancement of Sciences (KFAS)

The group calculates the contribution to KFAS at 1% in accordance with the modified calculation based on the Foundation's Board of Directors' resolution, which states that the directors' fees, transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

National Labour Support Tax (NLST)

The group calculates the NLST in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit for the year.

Zakat

The group provides for Zakat in accordance with the requirements of Law No. 46 of 2006. The Zakat charge calculated in accordance with these requirements is charged to the consolidated statement of income.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

At each reporting date, the group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered impairment in value. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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 discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining the fair value less costs to sell, an appropriate valuation model is used.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated statement of income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) 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 recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the consolidated statement of income.

Financial instruments – initial recognition, subsequent measurement and derecognition

In the current year, the group has adopted IFRS 9 *Financial Instruments*. See Note 2.2 for an explanation of the impact. Comparative figures for the year ended 30 September 2018 have not been restated. Therefore, financial instruments in the comparative period are still accounted for in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*.

a) Recognition and initial measurement

Receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the group becomes a party to the contractual provisions of the instrument.

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

b) Classification and subsequent measurement

Financial assets

Financial assets - Policy effective from 1 October 2018 (IFRS 9)

On initial recognition, a financial asset is measured at: amortised cost or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

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

- ▶ it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- ▶ its contractual terms give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

All financial assets not classified at amortised cost as described above are measured at FVTPL.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition, subsequent measurement and derecognition (continued)

b) Classification and subsequent measurement (continued)

Financial assets (continued)

Financial assets - Policy effective from 1 October 2018 (IFRS 9) (continued)

The group's financial assets includes cash and cash equivalents and receivables which are measured at amortised cost.

Financial assets – Subsequent measurement and gains and losses: Policy applicable from 1 October 2018

- | | |
|--------------------------------------|---|
| ▶ Financial assets at FVTPL | These assets are subsequently measured at fair value. Net gains and losses, including any finance or dividend income, are recognised in the consolidated statement of income. |
| ▶ Financial assets at amortised cost | These assets are subsequently measured at amortised cost using the effective profit method. The amortised cost is reduced by impairment losses. Finance income, foreign exchange gains and losses and impairment are recognised in the consolidated statement of income. Any gain or loss on derecognition is recognised in the consolidated statement of income. |

Financial assets - Policy effective before 1 October 2018 (IAS 39)

The group classifies its financial assets at initial recognition into the following categories and is subsequently measured in accordance with IAS 39 as:

- | | |
|---|--|
| ▶ Financial assets at fair value through profit or loss | Measured at fair value and changes therein, including any finance or dividend income, were recognised in the consolidated statement of income. |
| ▶ Loans and receivables | Measured at amortised cost using the effective profit method. |

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective profit method.

The group's financial liabilities include due to financial institutions, security deposits, and other liabilities.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as described below:

Other liabilities

Other liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

c) Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- ▶ The rights to receive cash flows from the asset have expired; or
- ▶ The group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the group has transferred substantially all the risks and rewards of the asset, or (b) the group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition, subsequent measurement and derecognition (continued)

c) Derecognition (continued)

Financial assets (continued)

When the group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the group could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated statement of income.

d) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Impairment of financial assets

Policy effective from 1 October 2018 (IFRS 9)

Determination of ECL on cash and cash equivalents and receivables

For cash and cash equivalents and receivables, the group applies a simplified approach in calculating ECLs. Therefore, the group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The group considers a financial asset in default when contractual payments are 120 days past due. However, in certain cases, the group may also consider a financial asset to be in default when internal or external information indicates that the group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

The group does not determine ECLs on cash and cash equivalents as these are considered to be of low risk and the group does not expect to incur any credit losses on these instruments.

Policy effective before 1 October 2018 (IAS 39)

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial assets or the group of financial assets that can be reliably estimated.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition, subsequent measurement and derecognition (continued)

Impairment of financial assets (continued)

Policy effective before 1 October 2018 (IAS 39) (continued)

If such evidence exists, any impairment loss is recognised in the consolidated statement of income. Impairment is determined as follows:

- (a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the consolidated statement of income.
- (b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.
- (c) For assets carried at amortized cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective profit rate.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the financial asset no longer exist or have decreased and the decrease can be related objectively to an event occurring after the impairment was recognised. Reversal of impairment losses are recognised in the consolidated statement of income to the extent the carrying value of the asset does not exceed its amortised cost at the reversal date.

Fair values

Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset, or transfer the liability, takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Employees' end of service benefits

The group provides end of service benefits to all its employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

Further, with respect to its national employees, the group also makes contributions to Public Institution for Social Security calculated as a percentage of the employees' salaries. The group's obligations are limited to these contributions, which are expensed when due.

2.6 SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of income and expenses during the reporting year. Actual results could differ from those estimates. The group has used judgement and estimates principally in, but not limited to, the determination of impairment, depreciation, and residual value of aircraft, engines and equipment and classification and impairment of financial assets at amortised cost.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (continued)

2.6 SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Impairment of aircraft, engines and equipment

A decline in the value of aircraft could have a significant effect on the amounts recognised in the consolidated financial statements. Management assesses the impairment of aircraft whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Factors that are considered important which could trigger an impairment review include the following:

- significant decline in the market value beyond that which would be expected from the passage of time or normal use,
- significant changes in the technology and regulatory environments,
- evidence from internal reporting which indicates that the economic performance of the asset is, or will be, worse than expected.

Depreciation of aircraft, engines and equipment

Management assigns useful lives and residual values to aircraft, engines and equipment based on the intended use of assets and the economic lives of those assets. Subsequent changes in circumstances such as technological advances or prospective utilisation of the assets concerned could result in the actual useful lives or residual values differing from initial estimates.

Residual value of aircraft, engines and equipment

Management decides on the appropriateness of residual value used at each reporting date. Management obtains independent published valuations, based on certain industry valuation techniques, of its fleet of aircraft to determine the residual values every year. On a conservative basis, management adopts a policy of discounting these valuations as it does not believe that these amounts would be realisable in open market transactions. As a result, the actual residual values could differ from initial estimates. Based on the above exercise, the residual value of the fleet approximates 20% of the purchase price (in aggregate) except for BFE – wide body aircraft which does not have a residual value.

Aircraft heavy maintenance provisions

Management estimates the maintenance costs and the costs associated with the overhaul/ restitution of major components of aircraft such as engines and life-limited parts as per new operating lease agreements. The calculation of such costs includes a number of variable factors and assumptions, such as

- the anticipated utilisation of the aircraft,
- cost of maintenance and
- the remaining lifespan of the engines/life-limited parts at the time when the aircraft would be delivered to the new lessees.

Classification of financial assets - policy applicable from 1 October 2018

Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and profit on the principal amount outstanding.

Impairment of financial assets at amortised cost

Effective before 1 October 2018 (IAS 39)

An estimate of the collectible amount of receivables is made when collection of part of or the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

Effective from 1 October 2018 (IFRS 9)

The impairment provisions for financial assets are based on assumptions about risk of default and expected loss rates. The group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

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3 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing profit for the year by the weighted average number of ordinary shares outstanding during the year, as follows:

	2019	2018
Profit for the year (KD)	17,696,383	33,176,107
Weighted average number of ordinary shares	952,093,482	952,093,482
Basic and diluted earnings per share	18.59 fils	34.85 fils

As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

4 AIRCRAFT, ENGINES AND EQUIPMENT

	<i>Aircraft and engines KD</i>	<i>Furniture and fixtures KD</i>	<i>Office equipment KD</i>	<i>Total KD</i>
Cost				
At 1 October 2018	1,029,039,398	331,946	166,807	1,029,538,151
Additions	150,899,762	-	7,935	150,907,697
Transfer from capital advances (Note 5)	55,848,920	-	-	55,848,920
Disposals	(140,359,720)	-	(10,834)	(140,370,554)
Foreign currency adjustment	3,224,765	1,040	523	3,226,328
At 30 September 2019	1,098,653,125	332,986	164,431	1,099,150,542
Depreciation and impairment				
At 1 October 2018	199,628,178	289,580	111,331	200,029,089
Depreciation charge for the year	47,782,741	22,928	27,778	47,833,447
Impairment loss on aircraft, engines and equipment	472,155	-	-	472,155
Disposal	(26,253,317)	-	(10,834)	(26,264,151)
Foreign currency adjustment	681,197	935	380	682,512
At 30 September 2019	222,310,954	313,443	128,655	222,753,052
Net carrying amount				
At 30 September 2019	876,342,171	19,543	35,776	876,397,490
	<i>Aircraft and engines KD</i>	<i>Furniture and fixtures KD</i>	<i>Office equipment KD</i>	<i>Total KD</i>
Cost				
At 1 October 2017	1,102,923,208	330,906	154,831	1,103,408,945
Additions	234,078,530	-	11,489	234,090,019
Transfer from capital advances (Note 5)	46,736,499	-	-	46,736,499
Disposals	(358,166,003)	-	-	(358,166,003)
Foreign currency adjustment	3,467,164	1,040	487	3,468,691
At 30 September 2018	1,029,039,398	331,946	166,807	1,029,538,151
Depreciation and impairment				
At 1 October 2017	219,510,343	265,856	84,776	219,860,975
Depreciation charge for the year	43,816,890	22,773	26,157	43,865,820
Disposal	(64,609,916)	-	-	(64,609,916)
Foreign currency adjustment	910,861	951	398	912,210
At 30 September 2018	199,628,178	289,580	111,331	200,029,089
Net carrying amount				
At 30 September 2018	829,411,220	42,366	55,476	829,509,062

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4 AIRCRAFT, ENGINES AND EQUIPMENT (continued)

Aircraft with carrying value of KD 828,941,885 (2018: KD 829,411,220) are subject to finance lease and are mortgaged against the financing facilities with the legal title of the same with the lenders (Note 9).

During the year ended 30 September 2019, the group recognized gain of KD 7,828,392 (2018: KD 29,783,996) from the sale of several aircrafts which included gain from sale of newly delivered aircrafts that were sold upon delivery from the manufacturer.

During the year ended 30 September 2019, the group recorded impairment loss of KD 472,155 to write down the carrying value of aircraft to its fair value less costs to sell. Fair value less costs of sell is based on models adopted by the management using published reports of aircraft values. The published reports of aircraft values include the value of aircraft in the current year considering the model and date of manufacturing of each aircraft using observable inputs such as price of recent sale, aircraft supply and demand and other value determinants hence categorized under level 2 of the fair value hierarchy.

5 CAPITAL ADVANCES

	2019 KD	2018 KD
At 1 October	237,501,172	127,570,232
Additional payments	121,999,878	155,071,279
Transfer to aircraft, engines and equipment (Note 4)	(55,848,920)	(46,736,499)
Transfer from receivables	-	1,195,128
Foreign currency adjustment	744,272	401,032
	<u>304,396,402</u>	<u>237,501,172</u>

Capital advances represent progress payments made towards the purchase of aircraft and engines. The commitment in this respect is disclosed in Note 14.

6 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated statement of cash flows include the following:

	2019 KD	2018 KD
Cash and balances with financial institutions	25,566,085	11,219,891
Short-term murabahas (3 months or less from the date of placement)	67,875,186	36,300,944
Cash and cash equivalents	<u>93,441,271</u>	<u>47,520,835</u>

Short-term murabahas represent short-term deals in international commodity transactions which earn a profit rate of 1% - 2.85% per annum (2018: 1.18% - 2.10% per annum).

7 SHARE CAPITAL AND SHARE PREMIUM

Share capital

The authorized, issued and fully paid share capital as at 30 September 2019 comprises 952,093,482 ordinary shares (2018: 952,093,482 ordinary shares) of 100 fils each paid in cash and bonus shares.

On 25 December 2018, the shareholders at the annual general assembly meeting of the parent company approved the consolidated financial statements for the year ended 30 September 2018 and approved a cash dividend of 10% for the year ended 30 September 2018 (30 September 2017: 10%) of par value of each share being 10 fils per share (30 September 2017: 10 fils per share) amounting to KD 9,520,935 (30 September 2017: KD 9,520,935), which was paid subsequently.

Share premium

Share premium is not available for distribution.

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8 STATUTORY RESERVE

As required by the Companies Law and the parent company's Articles of Association, 10% of the profit for the year before directors' fees and contribution to KFAS, NLST and Zakat has been transferred to statutory reserve. The parent company may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital.

Distribution of the statutory reserve is limited to the amount required to enable the payment of a dividend of 5% of paid up share capital to be made in years when retained earnings are not sufficient for the payment of a dividend of that amount.

9 DUE TO FINANCIAL INSTITUTIONS

	2019 KD	2018 KD
Balance due to financial institutions - financing lease facilities	547,137,377	542,414,510
Short term financing facilities	249,099,406	98,296,388
	<u>796,236,783</u>	<u>640,710,898</u>
Less: deferred financing arrangement fees	(9,724,034)	(9,551,334)
	<u>786,512,749</u>	<u>631,159,564</u>

Obligation under finance lease

Future minimum lease payments under finance lease agreements together with the present value of the net minimum lease payments are as follows:

	2019		2018	
	Minimum payments KD	Present value of payments KD	Minimum payments KD	Present value of payments KD
Within one year	86,832,702	64,755,719	85,507,166	65,159,549
After one year but not more than five years	334,009,397	269,501,791	294,809,131	235,975,800
After 5 years	232,955,711	212,879,867	269,851,435	241,279,161
Total minimum lease payments	653,797,810	547,137,377	650,167,732	542,414,510
Less: amounts representing finance charges	(106,660,433)	-	(107,753,222)	-
Present value of minimum lease payments	<u>547,137,377</u>	<u>547,137,377</u>	<u>542,414,510</u>	<u>542,414,510</u>

All financing lease facilities are secured over the aircraft (Note 4) and are denominated in US Dollars.

Changes in liabilities from financing activities:

	1 October 2018 KD	Cash inflows KD	Cash outflows KD	Foreign currency adjustment KD	30 September 2019 KD
Due to financial institutions - Gross	640,710,898	360,662,600	(207,144,562)	2,007,847	796,236,783
Total liabilities from financing activities	<u>640,710,898</u>	<u>360,662,600</u>	<u>(207,144,562)</u>	<u>2,007,847</u>	<u>796,236,783</u>

	1 October 2017 KD	Cash inflows KD	Cash outflows KD	Foreign currency adjustment KD	30 September 2018 KD
Due to financial institutions - Gross	620,116,405	283,233,045	(264,587,958)	1,949,406	640,710,898
Total liabilities from financing activities	<u>620,116,405</u>	<u>283,233,045</u>	<u>(264,587,958)</u>	<u>1,949,406</u>	<u>640,710,898</u>

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10 SECURITY DEPOSITS

Security deposits represent amounts paid by the lessees as a security in accordance with the lease agreements. The deposits are repayable to the lessees on the expiration of the lease agreements subject to satisfactory compliance of the lease agreements by the lessees.

11 MAINTENANCE RESERVE AND PROVISIONS

	<i>Balance at 1 October 2018 KD</i>	<i>Additions KD</i>	<i>Releases/ utilizes KD</i>	<i>Foreign currency adjustment KD</i>	<i>Balance at 30 September 2019 KD</i>
Maintenance reserve	126,742,657	23,343,589	(26,288,094)	397,192	124,195,344
Heavy maintenance provisions	23,706,128	-	-	74,287	23,780,415
Re-lease provisions	2,630,813	-	(945,926)	8,246	1,693,133
Total	<u>153,079,598</u>	<u>23,343,589</u>	<u>(27,234,020)</u>	<u>479,725</u>	<u>149,668,892</u>

	<i>Balance at 1 October 2017 KD</i>	<i>Additions KD</i>	<i>Releases/ utilizes KD</i>	<i>Foreign currency adjustment KD</i>	<i>Balance at 30 September 2018 KD</i>
Maintenance reserve	132,408,411	24,587,639	(30,669,634)	416,241	126,742,657
Heavy maintenance provisions	8,204,828	17,064,024	(1,674,508)	111,784	23,706,128
Re-lease provisions	3,118,704	-	(497,695)	9,804	2,630,813
Total	<u>143,731,943</u>	<u>41,651,663</u>	<u>(32,841,837)</u>	<u>537,829</u>	<u>153,079,598</u>

Maintenance reserve amounting to KD 8,869,906 (2018: KD 8,869,906) is backed by letters of credit issued to a financial institution.

12 OTHER LIABILITIES

	<i>2019 KD</i>	<i>2018 KD</i>
Operating lease income received in advance	2,019,946	2,400,115
Accrued expenses	4,541,748	4,397,066
Commitment deposits	2,413,092	3,287,977
End of service benefits	1,059,256	1,199,826
KFAS, NLST, Zakat, and other tax payable	1,273,222	2,898,233
Other payables	5,490,250	2,674,581
	<u>16,797,514</u>	<u>16,857,798</u>

13 OPERATING LEASE INCOME

The future minimum lease rent receivable on the operating lease is KD 735,593,698 (2018: KD 724,126,550) and is receivable as follows:

	<i>2019 KD</i>	<i>2018 KD</i>
Income receivable within one year	103,932,889	89,806,833
Income receivable within one year to five years	351,227,865	318,163,285
Income receivable after five years	280,432,944	316,156,432
	<u>735,593,698</u>	<u>724,126,550</u>

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14 CAPITAL COMMITMENTS

There are potential commitments in respect of purchase of aircraft and engines amounting to KD 1,561,290,499 (2018: KD 1,672,763,184) (Note 5).

15 CONTINGENT LIABILITIES

As at 30 September 2019, the group has contingent liabilities amounting to KD 11,838,550 (2018: KD 12,120,473) in respect of letters of credit arising in the ordinary course of business from which it is anticipated that no material liabilities will arise.

16 RELATED PARTY TRANSACTIONS

Related parties represent the major shareholders, directors and key management personnel of the parent company, and entities controlled, jointly controlled, or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the parent company's management.

Significant transactions with related parties included in the consolidated financial statements are as follows:

Consolidated statement of financial position:

	Bank KD	Other related parties* KD	2019 KD	Bank KD	Other related parties* KD	2018 KD
Capital advances	-	-	-	322,097	-	322,097
Receivables**	30,676	686	31,362	7,521	26,611	34,132
Cash and cash equivalents	84,708,594	3,335,367	88,043,961	14,820,069	29,631,644	44,451,713
Due to financial institutions	114,290,100	-	114,290,100	95,133,336	-	95,133,336
Other liabilities***	513,697	-	513,697	588,856	-	588,856

Consolidated statement of income:

	Bank KD	Other related parties* KD	2019 KD	Bank KD	Other related parties* KD	2018 KD
Murabaha income	585,901	213,736	799,637	15,059	818,294	833,353
Finance costs	5,695,762	-	5,695,762	3,698,553	-	3,698,553

Key management compensation and directors' fees:

	2019 KD	2018 KD
Salaries and other short-term benefits	950,486	1,214,403
End of service benefits	201,581	367,227
Directors' fees	217,000	180,000
	<u>1,369,067</u>	<u>1,761,630</u>

Directors' fees of KD 217,000 for the year ended 30 September 2019 (2018: KD 180,000) is within the amount permissible under local regulation and is subject to approval by the Annual General Assembly of the shareholders.

* Other related parties represent subsidiaries of the Bank.

** Receivables represents accrued murabaha income.

*** Other liabilities represent the accrued finance costs payable to the Bank.

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17 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below summarises the maturity profile of the group's assets and liabilities. Maturity of cash and cash equivalents and receivables have been determined on the basis of the remaining period from the reporting date to the contractual maturity date. The maturity profile for aircraft, engine and equipment and capital advances is determined based on management's estimate of liquidation of those assets. The actual maturities may differ from the maturities shown below since borrowers may have the right to prepay obligations with or without prepayment penalties.

The maturity profile of assets and liabilities at 30 September are as follows:

30 September 2019

	<i>Less than 1 year KD</i>	<i>Over 1 year KD</i>	<i>Total KD</i>
ASSETS			
Aircraft, engines and equipment	-	876,397,490	876,397,490
Capital advances	88,949,250	215,447,152	304,396,402
Receivables	8,793,145	-	8,793,145
Cash and cash equivalents	93,441,271	-	93,441,271
Total assets	191,183,666	1,091,844,642	1,283,028,308
LIABILITIES			
Due to financial institutions	191,844,231	594,668,518	786,512,749
Security deposits	2,049,971	8,748,548	10,798,519
Maintenance reserve and provisions	7,980,385	141,688,507	149,668,892
Other liabilities	12,544,987	4,252,527	16,797,514
Total liabilities	214,419,574	749,358,100	963,777,674

30 September 2018

	<i>Less than 1 year KD</i>	<i>Over 1 year KD</i>	<i>Total KD</i>
ASSETS			
Aircraft, engines and equipment	-	829,509,062	829,509,062
Capital advances	55,794,758	181,706,414	237,501,172
Receivables	8,906,295	-	8,906,295
Cash and cash equivalents	47,520,835	-	47,520,835
Total assets	112,221,888	1,011,215,476	1,123,437,364
LIABILITIES			
Due to financial institutions	128,654,971	502,504,593	631,159,564
Security deposits	3,015,000	7,901,966	10,916,966
Maintenance reserve and provisions	8,447,647	144,631,951	153,079,598
Other liabilities	11,928,532	4,929,266	16,857,798
Total liabilities	152,046,150	659,967,776	812,013,926

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18 SEGMENT INFORMATION

The group is engaged primarily in only one business segment i.e. aircraft leasing segment. However, for management purposes, the group is organised into five geographical segments.

30 September 2019	Middle East KD	Asia KD	Europe KD	America KD	Africa KD	Total KD
Segment revenue	26,199,798	71,716,329	4,765,639	8,276,911	2,760,075	113,718,752
Segment results before directors' fees and taxation	3,323,738	9,850,053	1,807,798	3,480,584	587,123	19,049,296
Total assets	292,305,733	583,229,838	220,605,096	160,272,980	26,614,661	1,283,028,308
Total liabilities	435,060,605	449,059,684	20,670,837	36,232,821	22,753,727	963,777,674
Other segmental information:						
Depreciation	10,974,861	30,091,499	1,827,946	3,287,693	1,651,448	47,833,447
Finance costs	9,866,984	16,908,169	759,879	865,995	307,204	28,708,231
Allowance for credit loss on receivables	-	8,826,226	-	-	-	8,826,226
Capital expenditure	7,935	206,748,682	-	-	-	206,756,617
30 September 2018	Middle East KD	Asia KD	Europe KD	America KD	Africa KD	Total KD
Segment revenue	27,913,398	85,729,307	6,749,486	2,984,285	3,041,916	126,418,392
Segment results before directors' fees and taxation	(9,730,415)	43,851,800	1,372,667	(920,122)	886,597	35,460,527
Total assets	265,284,441	508,498,738	195,520,208	125,954,274	28,179,703	1,123,437,364
Total liabilities	308,877,036	414,254,791	33,902,493	31,018,976	23,960,630	812,013,926
Other segmental information:						
Depreciation	11,992,833	23,973,577	3,653,592	2,605,896	1,639,922	43,865,820
Finance costs	7,447,392	12,536,191	1,399,017	409,346	382,210	22,174,156
Allowance for impairment of receivables	-	264,462	-	-	-	264,462
Capital expenditure	47,939,505	232,887,013	-	-	-	280,826,518

19 FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of cash and cash equivalents and receivables. Financial liabilities consist of amounts due to financial institutions, security deposits, and other liabilities.

The fair values of financial instruments are not materially different from their carrying values.

20 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk is inherent in the group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the group's continuing profitability and each individual within the group is accountable for the risk exposures relating to his or her responsibilities. The group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into profit rate risk, prepayment risk and equity price risk, because the group's significant transactions, assets and liabilities are denominated in the functional currency and no equity instruments. The independent risk control process does not include business risks such as changes in the environment technology and industry. They are monitored through the group's strategic planning process.

The group's principal financial liabilities comprise due to financial institutions, security deposits, and other liabilities. The main purpose of these financial liabilities is to raise finance for the group's operations. The group has various financial assets such as cash and cash equivalents and receivables. No significant changes were made in the risk management objectives and policies during the years ended 30 September 2019 and 30 September 2018.

The management of the group is ultimately responsible for the overall risk management approach and for approving the risk strategies and principles. The management of the group reviews and agrees policies for managing each of these risks which are summarised below.

20.1 CREDIT RISK

Credit risk is the risk that a counter party to a financial instrument will fail to discharge its obligation and cause the group to incur a financial loss. The group is exposed to credit risk on its cash and cash equivalents and receivables.

The group seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and monitoring outstanding receivables.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The group applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all receivables.

The credit risk in respect of cash and cash equivalents is limited as these are maintained only with reputable banks with appropriate credit ratings.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets as follows:

	<i>2019</i> <i>KD</i>	<i>2018</i> <i>KD</i>
Cash and cash equivalents	93,441,271	47,520,835
Receivables*	6,388,481	8,711,675
	<u>99,829,752</u>	<u>56,232,510</u>

* Excluded from receivables are prepayments and advances of KD 2,404,664 for the year ended 30 September 2019 (2018: KD 194,620).

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20 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.1 CREDIT RISK (continued)

Maximum exposure to credit risk

The group's policy is to enter into arrangements only with recognised, creditworthy counter parties. The maximum exposure with respect to credit risk arising from financial assets of the group, which comprise cash and cash equivalents and receivables.

During the year, in certain cases, the group has considered a financial asset to be in default due to internal and external information which has indicated that the group is unlikely to receive the outstanding contractual amounts in full. As a result, the management has recorded an allowance for credit loss on receivables amounting to KD 8,826,226.

Credit quality for class of financial assets that are neither past due nor impaired

Neither internal credit grading system nor external credit grades are used by the group to manage the credit quality of receivables. Receivable balances are monitored on an ongoing basis.

20.2 LIQUIDITY RISK

Liquidity risk is the risk that the group will encounter difficulty in raising funds to meet commitments associated with financial instruments. The group manages this risk by active cash flow management, short term financing facilities with various financial institutions, investment in short term murabahas and generation of funds from its operations. The maturity profile is monitored by finance department to ensure adequate liquidity is maintained.

Commitments in respect of purchase of aircraft (Note 14) will be funded through the issue of equity, cash generated from operations and through bank borrowings, which will be arranged as the cash flow needs arise.

The table below summarises the liquidity profile of the group's liabilities and reflects the projected cash flows which includes future finance cost payments over the life of these financial liabilities.

30 September 2019	<i>Within 3 months KD</i>	<i>3 to 12 Months KD</i>	<i>1 to 5 years KD</i>	<i>More than 5 years KD</i>	<i>Total KD</i>
Due to financial institutions	38,908,284	182,692,060	454,287,623	232,955,711	908,843,678
Security deposits	2,049,971	-	2,872,639	5,875,909	10,798,519
Other liabilities (excluded operating lease income received in advance)	4,492,608	6,032,434	3,056,846	1,195,680	14,777,568
TOTAL LIABILITIES	45,450,863	188,724,494	460,217,108	240,027,300	934,419,765
Capital commitments	304,617,868	144,649,033	1,031,511,162	80,512,436	1,561,290,499
30 September 2018	<i>Within 3 months KD</i>	<i>3 to 12 Months KD</i>	<i>1 to 5 years KD</i>	<i>More than 5 years KD</i>	<i>Total KD</i>
Due to financial institutions	61,085,911	92,664,777	328,910,669	269,851,435	752,512,792
Security deposits	2,661,992	353,008	2,268,035	5,633,931	10,916,966
Other liabilities (excluded operating lease income received in advance)	6,756,201	2,772,216	898,692	4,030,574	14,457,683
TOTAL LIABILITIES	70,504,104	95,790,001	332,077,396	279,515,940	777,887,441
Capital commitments	93,481,686	407,808,863	1,046,067,361	125,405,274	1,672,763,184

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 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 As at 30 September 2019

20 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES
 (continued)

20.3 MARKET RISK

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market variables such as profit rates and foreign exchange rates, whether those changes are caused by factors specific to the individual investment or its issuer or factors affecting all investments traded in the market.

20.3.1 Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. Profit rate risk is managed by the finance department of the parent company.

The group is exposed to profit risk on its floating profit bearing assets and liabilities.

The table below details the group's exposure to profit rate risk.

The sensitivity of group's profit for one year is the effect of the assumed changes in profit rates financial assets and liabilities held as at the reporting date.

	<i>Change in basis points</i>	<i>Effect on profit for the year KD</i>
30 September 2019	±25	±88,424
30 September 2018	±25	±29,371

Sensitivity to profit rate movements will be on a symmetric basis.

20.3.2 Asset risk

The group bears the risk of re-leasing or selling the aircraft in its fleet at the end of their lease terms. If demand for aircraft decreases market lease rates may fall, and should such conditions continue for an extended period, it could affect the market value of aircraft in the fleet and may result in an impairment charge. The group's management has appropriate experience of the aviation industry to manage the fleet and remarket or sell aircraft as required in order to reduce this risk.

The group is highly dependent upon the continuing financial strength of the commercial airline industry. A significant deterioration in this sector could adversely affect the group through a reduced demand for aircraft in the fleet and / or reduced market rates, higher incidences of lessee default and an increase in aircraft on the ground. The group periodically performs reviews of its carrying values of aircraft and associated assets, receivables and the sufficiency of accruals and provisions, substantially all of which are susceptible to the above risks and uncertainties.

21 CAPITAL MANAGEMENT

The primary objective of the group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholders' value.

The group monitors capital using a gearing ratio, which is net debt divided by capital. The group includes within net debt, due to financial institutions, less cash and cash equivalents. Capital includes total equity add/less foreign currency translation reserve.

	<i>2019 KD</i>	<i>2018 KD</i>
Due to financial institutions	786,512,749	631,159,564
Less: Cash and cash equivalents	(93,441,271)	(47,520,835)
Net debt	693,071,478	583,638,729
Total equity	319,250,634	311,423,438
Adjust: Foreign currency translation reserve	(14,929,164)	(13,959,649)
Capital	304,321,470	297,463,789
Gearing ratio	2.28	1.96