

**ALAFCO AVIATION LEASE AND FINANCE  
COMPANY K.S.C.P. AND SUBSIDIARIES**

**INTERIM CONDENSED CONSOLIDATED FINANCIAL  
INFORMATION (UNAUDITED)**

**31 MARCH 2020**



Ernst & Young  
Al Aiban, Al Osaimi & Partners  
P.O. Box 74  
18–20th Floor, Baitak Tower  
Ahmed Al Jaber Street  
Safat Square 13001, Kuwait

Tel: +965 2295 5000  
Fax: +965 2245 6419  
kuwait@kw.ey.com  
ey.com/mena

## **REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF ALAFCO AVIATION LEASE AND FINANCE COMPANY K.S.C.P.**

### *Introduction*

We have reviewed the accompanying interim condensed consolidated statement of financial position of ALAFCO Aviation Lease and Finance Company K.S.C.P. (the “parent company”) and its subsidiaries (together, the “group”) as at 31 March 2020, and the related interim condensed consolidated statements of income and comprehensive income for the three months and six months periods then ended, and the related interim condensed consolidated statements of changes in equity and cash flows for the six months period then ended. The management of the parent company is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard 34: Interim Financial Reporting (“IAS 34”). Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

### *Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim condensed consolidated financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34.

### **Report on Other Legal and Regulatory Requirements**

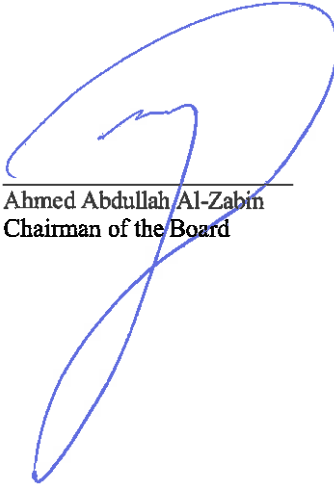
Furthermore, based on our review, the interim condensed consolidated financial information is in agreement with the books of account of the parent company. We further report that, to the best of our knowledge and belief, we have not become aware of any violations of the Companies Law No. 1 of 2016, as amended, and its Executive Regulations, as amended, or of the parent company’s Memorandum of Incorporation and Articles of Association during the six months period ended 31 March 2020 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)

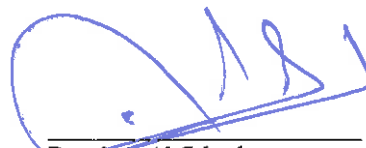
13 August 2020  
Kuwait

ALAFCO Aviation Lease and Finance Company K.S.C.P. and Subsidiaries  
 INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL  
 POSITION (UNAUDITED)  
 As at 31 March 2020

		<i>(Audited)</i>	
	<i>31 March</i>	<i>30 September</i>	<i>31 March</i>
	<i>2020</i>	<i>2019</i>	<i>2019</i>
<i>Notes</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
<b>ASSETS</b>			
Aircraft, engines and equipment	4	1,201,871,095	876,397,490
Capital advances	5	199,342,629	304,396,402
Receivables		12,794,178	8,793,145
Cash and cash equivalents		62,084,687	93,441,271
<b>TOTAL ASSETS</b>		<b>1,476,092,589</b>	<b>1,283,028,308</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Share capital	6	95,209,348	95,209,348
Share premium		17,829,167	17,829,167
Statutory reserve		29,571,005	29,571,005
Foreign currency translation reserve		19,468,859	14,929,164
Retained earnings		149,608,417	161,711,950
<b>TOTAL EQUITY</b>		<b>311,686,796</b>	<b>319,250,634</b>
<b>LIABILITIES</b>			
Due to financial institutions		984,744,257	786,512,749
Security deposits		11,166,388	10,798,519
Maintenance reserve and provisions		152,440,610	149,668,892
Other liabilities		16,054,538	16,797,514
<b>TOTAL LIABILITIES</b>		<b>1,164,405,793</b>	<b>963,777,674</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,476,092,589</b>	<b>1,283,028,308</b>



Ahmed Abdullah Al-Zabin  
 Chairman of the Board



Barrak A. Al-Sabeeh  
 Vice Chairman of the Board

The attached notes 1 to 11 form part of this interim condensed consolidated financial information.

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

For the period ended 31 March 2020

	Notes	Three months ended		Six months ended	
		31 March		31 March	
		2020	2019	2020	2019
		KD	KD	KD	KD
Operating lease income		<b>28,104,013</b>	26,325,513	<b>58,228,842</b>	52,080,115
Murabaha income		<b>186,328</b>	184,252	<b>408,161</b>	294,611
Gain on disposal of aircraft, engines and equipment		-	-	<b>1,430,140</b>	-
Other income		-	-	<b>142,242</b>	-
Staff costs		<b>(862,364)</b>	(1,029,233)	<b>(1,732,372)</b>	(1,894,979)
Depreciation	4	<b>(12,699,174)</b>	(11,701,450)	<b>(22,631,195)</b>	(22,979,684)
Impairment loss on aircraft, engines and equipment	4	<b>(15,509,947)</b>	-	<b>(15,509,947)</b>	-
Other operating expenses		<b>(1,569,137)</b>	(423,718)	<b>(4,960,255)</b>	(1,233,922)
Allowance for credit loss on receivables	11	<b>(1,519,955)</b>	(1,289,629)	<b>(191,431)</b>	(3,187,063)
Finance costs		<b>(9,966,198)</b>	(6,994,676)	<b>(19,670,970)</b>	(13,299,095)
<b>(LOSS) PROFIT FOR THE PERIOD BEFORE CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES (KFAS), NATIONAL LABOUR SUPPORT TAX (NLST) AND ZAKAT</b>		<b>(13,836,434)</b>	5,071,059	<b>(4,486,785)</b>	9,779,983
Contribution to KFAS		<b>84,147</b>	(45,640)	-	(88,020)
NLST		<b>199,369</b>	(148,107)	-	(314,465)
Zakat		<b>79,748</b>	(59,243)	-	(125,786)
<b>(LOSS) PROFIT FOR THE PERIOD</b>		<b>(13,473,170)</b>	4,818,069	<b>(4,486,785)</b>	9,251,712
Basic and diluted (loss) earnings per share	3	<b>(14.15) fils</b>	5.06 fils	<b>(4.71) fils</b>	9.72 fils

The attached notes 1 to 11 form part of this interim condensed consolidated financial information.

ALAFCO Aviation Lease and Finance Company K.S.C.P. and Subsidiaries  
 INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE  
 INCOME (UNAUDITED)

For the period ended 31 March 2020

	<i>Three months ended</i>		<i>Six months ended</i>	
	<i>31 March</i>		<i>31 March</i>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	<b>KD</b>	<b>KD</b>	<b>KD</b>	<b>KD</b>
<b>(Loss) profit for the period</b>	<b>(13,473,170)</b>	4,818,069	<b>(4,486,785)</b>	9,251,712
<b>Other comprehensive income:</b>				
<i>Items that are not reclassified subsequently to interim condensed consolidated statement of income:</i>				
Foreign currency translation adjustment	<b>5,861,577</b>	918,710	<b>4,539,695</b>	1,119,194
<b>Other comprehensive income for the period</b>	<b>5,861,577</b>	918,710	<b>4,539,695</b>	1,119,194
<b>Total comprehensive (loss) income for the period</b>	<b>(7,611,593)</b>	5,736,779	<b>52,910</b>	10,370,906

The attached notes 1 to 11 form part of this interim condensed consolidated financial information.

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the period ended 31 March 2020

	<i>Share capital KD</i>	<i>Share premium KD</i>	<i>Statutory reserve KD</i>	<i>Foreign currency translation reserve KD</i>	<i>Retained earnings KD</i>	<i>Total KD</i>
Balance as at 1 October 2019	95,209,348	17,829,167	29,571,005	14,929,164	161,711,950	319,250,634
Loss for the period	-	-	-	-	(4,486,785)	(4,486,785)
Other comprehensive income for the period	-	-	-	4,539,695	-	4,539,695
Total comprehensive income (loss) for the period	-	-	-	4,539,695	(4,486,785)	52,910
Cash dividend (Note 6)	-	-	-	-	(7,616,748)	(7,616,748)
<b>Balance at 31 March 2020</b>	<b>95,209,348</b>	<b>17,829,167</b>	<b>29,571,005</b>	<b>19,468,859</b>	<b>149,608,417</b>	<b>311,686,796</b>
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	-	-	-	-	(1,317,767)	(1,317,767)
Adjusted balance as 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 period	-	-	-	-	9,251,712	9,251,712
Other comprehensive income for the period	-	-	-	1,119,194	-	1,119,194
Total comprehensive income for the period	-	-	-	1,119,194	9,251,712	10,370,906
Cash dividend	-	-	-	-	(9,520,935)	(9,520,935)
Balance at 31 March 2019	95,209,348	17,829,167	27,666,075	15,078,843	155,172,209	310,955,642

The attached notes 1 to 11 form part of this interim condensed consolidated financial information.

ALAFCO Aviation Lease and Finance Company K.S.C.P. and Subsidiaries  
**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**(UNAUDITED)**

For the period ended 31 March 2020

	<i>Note</i>	<i>Six months ended</i>	
		<i>31 March</i>	
		<i>2020</i>	<i>2019</i>
		<i>KD</i>	<i>KD</i>
<b>OPERATING ACTIVITIES</b>			
(Loss) profit for the period		<b>(4,486,785)</b>	9,251,712
Adjustments for:			
Depreciation	4	<b>22,631,195</b>	22,979,684
Impairment loss on aircraft, engines and equipment	4	<b>15,509,947</b>	-
Murabaha income		<b>(408,161)</b>	(294,611)
Finance costs		<b>19,670,970</b>	13,299,095
Allowance for credit loss on receivables		<b>191,431</b>	3,187,063
Gain on disposal of aircraft, engines and equipment		<b>(1,430,140)</b>	-
		<b>51,678,457</b>	48,422,943
Changes in operating assets and liabilities:			
Receivables		<b>(4,072,050)</b>	(12,780,515)
Payables		<b>(1,081,985)</b>	(1,086,467)
Maintenance reserve and provisions		<b>5,438,092</b>	6,827,905
Cash from operations		<b>51,962,514</b>	41,383,866
Finance cost paid		<b>(19,572,825)</b>	(13,270,432)
Net cash flows from operating activities		<b>32,389,689</b>	28,113,434
<b>INVESTING ACTIVITIES</b>			
Purchase of aircraft, engines and equipment	4	<b>(135,829,145)</b>	(87,440,465)
Proceeds from disposal of aircraft, engines and equipment		<b>29,392,150</b>	-
Capital advances for purchase of aircraft, engines and equipment		<b>(139,086,348)</b>	(46,477,434)
Murabaha income received		<b>419,914</b>	287,774
Net cash flows used in investing activities		<b>(245,103,429)</b>	(133,630,125)
<b>FINANCING ACTIVITIES</b>			
Financing facilities received		<b>313,287,948</b>	177,377,750
Financing facilities repaid		<b>(126,304,041)</b>	(77,451,354)
Cash dividends paid		<b>(7,616,748)</b>	(9,520,935)
Net cash flows from financing activities		<b>179,367,159</b>	90,405,461
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(33,346,581)</b>	(15,111,230)
Foreign currency translation adjustment		<b>1,989,997</b>	256,970
Cash and cash equivalents at 1 October		<b>93,441,271</b>	47,520,835
<b>CASH AND CASH EQUIVALENTS AT 31 MARCH</b>		<b>62,084,687</b>	32,666,575

The attached notes 1 to 11 form part of this interim condensed consolidated financial information.

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

---

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 31 March 2020

### 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, 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, Second 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") and Gulf Investment Corporation S.A.G. (GIC).

The interim condensed consolidated financial information includes transactions and balances of the parent company and wholly owned Special Purpose Companies ("SPC") (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 interim condensed consolidated financial information of the group for the six months period ended 31 March 2020 was authorised for issue in accordance with a resolution of the board of directors on 13 August 2020.

### 2.1 BASIS OF PREPARATION

The interim condensed consolidated financial information of the group is prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*.

The interim condensed consolidated financial information does not contain all information and disclosures required for full financial statements prepared in accordance with the International Financial Reporting Standards. In the opinion of management, all adjustments consisting of normal recurring accruals considered necessary for a fair presentation have been included.

Operating results for the six months' period ended 31 March 2020 are not necessarily indicative of the results that may be expected for the financial year ending 30 September 2020. For more details please refer to the consolidated financial statements and its related disclosures for the year ended 30 September 2019.

The functional currency of the parent company is US dollars. The interim condensed consolidated financial information is presented in Kuwaiti Dinars.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL  
INFORMATION (UNAUDITED)

As at and for the period ended 31 March 2020

**2.2 NEW STANDARDS AND AMENDMENTS ADOPTED BY THE GROUP**

The accounting policies used in the preparation of the interim condensed consolidated financial information are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 30 September 2019, except for the changes in accounting policies detailed below for adoption of IFRS 16 – *Leases* effective from 1 October 2019.

**IFRS 16 – Leases**

IFRS 16 supersedes 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*. The standard 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.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the group is the lessor.

Before the adoption of IFRS 16, the group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the group; otherwise it was classified as an operating lease. Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between finance cost and reduction of the lease liability. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in the interim condensed consolidated statement of income on a straight-line basis over the lease term.

Upon adoption of IFRS 16, the group applied a single recognition and measurement approach for all leases where the group is the lessee, except for short-term leases and leases of low-value assets. The group recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. The group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019 and accordingly, the comparative information is not restated. The group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

**Summary of new accounting policies**

The accounting policies of the group upon adoption of IFRS 16 are as follows:

*a) Right of use assets*

The group recognises right of use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right of use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right of use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right of use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right of use assets are subject to impairment.

*b) Lease liabilities*

At the commencement date of the lease, the group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the group and payments of penalties for terminating a lease, if the lease term reflects the group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 31 March 2020

**2.2 NEW STANDARDS AND AMENDMENTS ADOPTED BY THE GROUP (continued)****IFRS 16 – Leases (continued)****Summary of new accounting policies (continued)***b) Lease liabilities (continued)*

In calculating the present value of lease payments, the group uses the incremental profit rate at the lease commencement date if the profit rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of profit and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

*c) Significant judgement in determining the lease term of contracts with renewal options*

The group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The group has the option, under some of its leases to lease the assets for additional terms. The group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

The adoption of this standard did not result in any material change in accounting policies of the group and does not have any material effect on the group's interim condensed consolidated financial information.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 October 2019 did not have any material impact on the accounting policies, financial position or performance of the group.

**2.3 CHANGES IN ACCOUNTING ESTIMATES**

In accordance with its policy, the group reviews the estimated useful lives of its aircraft and engines on an ongoing basis. As a result of the review, effective 1 October 2019, the group changed its estimates of the useful lives of its aircraft and engines (excluding Buyer Furnished Equipment – wide body aircraft) to better reflect the estimated periods during which these assets will remain in service. The estimated useful lives of the aircraft and engines (excluding Buyer Furnished Equipment – wide body aircraft) that previously averaged 20 years were increased to an average of 25 years. Furthermore, the group has changed its estimate of the residual value of aircrafts and engines from 20% of the purchase price (in aggregate) to 15% of the purchase price (in aggregate) except for BFE – wide body aircraft which does not have a residual value.

The effect of this change in estimate has reduced the depreciation expense recorded for the period ended 31 March 2020 by KD 4,602,622, decreased the loss for the period by KD 4,602,622, and decreased basic and diluted loss per share by 4.83 fils.

**3 (LOSS) EARNINGS PER SHARE**

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

	<i>Three months ended</i>		<i>Six months ended</i>	
	<i>31 March</i>		<i>31 March</i>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
(Loss) profit for the period (KD)	<b>(13,473,170)</b>	4,818,069	<b>(4,486,785)</b>	9,251,712
Weighted average number of ordinary shares	<b>952,093,482</b>	952,093,482	<b>952,093,482</b>	952,093,482
<b>Basic and diluted (loss) earnings per share</b>	<b><u>(14.15) fils</u></b>	<u>5.06 fils</u>	<b><u>(4.71) fils</u></b>	<u>9.72 fils</u>

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 31 March 2020

**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>
<b>Cost</b>				
At 1 October 2019	1,098,653,125	332,986	164,431	1,099,150,542
Additions	135,820,801	959	7,385	135,829,145
Transfer from capital advances	243,750,495	-	-	243,750,495
Disposals	(39,145,847)	-	-	(39,145,847)
Foreign currency adjustment	16,257,605	4,927	2,433	16,264,965
<b>At 31 March 2020</b>	<b>1,455,336,179</b>	<b>338,872</b>	<b>174,249</b>	<b>1,455,849,300</b>
<b>Depreciation and impairment</b>				
At 1 October 2019	222,310,954	313,443	128,655	<b>222,753,052</b>
Depreciation charge for the period	22,605,296	11,654	14,245	22,631,195
Impairment loss on aircraft, engines, and equipment	15,509,947	-	-	15,509,947
Disposals	(10,735,952)	-	-	(10,735,952)
Foreign currency adjustment	3,813,066	4,798	2,099	3,819,963
<b>At 31 March 2020</b>	<b>253,503,311</b>	<b>329,895</b>	<b>144,999</b>	<b>253,978,205</b>
<b>Net carrying amount</b>				
<b>At 31 March 2020</b>	<b>1,201,832,868</b>	<b>8,977</b>	<b>29,250</b>	<b>1,201,871,095</b>
At 30 September 2019 (Audited)	876,342,171	19,543	35,776	876,397,490
At 31 March 2019	927,326,012	31,034	47,179	927,404,225

Aircraft with carrying value of KD 1,169,284,277 (30 September 2019: KD 828,941,885 and 31 March 2019: KD 927,326,012) are under finance lease arrangements and are mortgaged against the financing facilities and registered in the name of the lenders.

During the period ended 31 March 2020, the group has changed its estimates of the useful lives and residual value of aircraft and engines (excluding Buyer Furnished Equipment – wide body aircraft) effective from 1 October 2019 (Note 2.3).

During the period ended 31 March 2020, the group recorded impairment loss of KD 15,509,947 to write down the carrying value of certain aircraft to its recoverable amount. The recoverable amount was determined based on the higher of the fair value less costs to sell and the value in use.

The fair value less costs to sell is based on models adopted by the management using external valuation reports. The external valuation reports include the value of aircraft in the current period considering the model and date of manufacturing of each aircraft.

The value in use represents the present value of future cash flows of lease rental and residual value of each aircraft. The cash flows were discounted at a rate of 5%.

**Key assumptions used in value in use calculations and sensitivity to changes in assumptions**

- ▶ Future cash flows of lease rental and residual value
- ▶ Discount rate

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL  
INFORMATION (UNAUDITED)

As at and for the period ended 31 March 2020

**4 AIRCRAFT, ENGINES AND EQUIPMENT (continued)**

**Key assumptions used in value in use calculations and sensitivity to changes in assumptions (continued)**

*Future cash flows of lease rental and residual value*

Future cash flows of lease rental expected to be received from lessees of aircraft are determined using the signed lease agreements (considering any subsequent amendments made to the lease terms). The future cash flows of residual value are estimated based at 15% of the purchase price of aircraft in accordance with the group's accounting estimate disclosed in Note 2.3.

*Discount rates*

The discount rate calculation is based on the specific circumstances of the group and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the group's investors. The cost of debt is based on the profit-bearing borrowings the group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated periodically based on publicly available market data.

**Sensitivity to changes in assumptions**

Management performed a sensitivity analysis to assess the changes to key assumptions that could cause the carrying value of the aircraft, engines and equipment to exceed its recoverable amount. These are summarised below:

- ▶ A decline in the monthly lease rental by 5%.
- ▶ A decline in the residual value of aircraft by 5%.
- ▶ A rise in the discount rate by 100 basis points.

The above sensitivity analyses is based on a change in an assumption while holding all other assumptions constant. None of the above movements in risk variables would have resulted in a material impact on the impairment charge for the period ended 31 March 2020.

**5 CAPITAL ADVANCES**

Subsequent to the reporting date, the group has filed a legal case against a manufacturer relating to refund of capital advances relating to 40 pre-ordered aircrafts amounting to KD 103,825,338. The manufacturer has defaulted on delivering of the first 10 aircrafts out of total 40 aircrafts, and accordingly, the group has claimed full refund of capital advances from the manufacturer against non-performance of the delivery obligation. Subsequent to the reporting date, the group has withdrawn the legal case and the terms of settlement are under discussion.

**6 SHARE CAPITAL AND ANNUAL GENERAL ASSEMBLY**

The authorised, issued and fully paid share capital as at 31 March 2020 comprises 952,093,482 ordinary shares (30 September 2019: 952,093,482 ordinary shares, 31 March 2019: 952,093,482 ordinary shares) of 100 fils each, fully paid in cash.

On 31 December 2019, the shareholders at the annual general assembly of the parent company approved the consolidated financial statements for the year ended 30 September 2019 and approved a cash dividend of 8% for the year ended 30 September 2019 of par value of each share being 8 fils per share amounting to KD 7,616,748, which was paid subsequently. The shareholders at the annual general assembly of the parent company have also approved directors' remuneration of KD 217,000 for the year ended 30 September 2019.

**7 CAPITAL COMMITMENTS**

Capital commitments in respect of purchase of aircraft and engines amount to KD 996,203,982 (30 September 2019: KD 1,561,290,499 and 31 March 2019: KD 1,609,531,226).

**8 CONTINGENT LIABILITIES**

As at 31 March 2020, the group has contingent liabilities amounting to KD 11,882,479 (30 September 2019: KD 11,838,550 and 31 March 2019: KD 11,840,014) in respect of letters of credit arising in the ordinary course of business from which it is anticipated that no material liabilities will arise.

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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 31 March 2020

### 9 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 and Board of Directors.

Significant transactions with related parties included in the interim condensed consolidated financial information are as follows:

#### Interim condensed consolidated statement of income:

	<i>Three months ended</i>		<i>Six months ended</i>	
	<i>31 March</i>		<i>31 March</i>	
	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
Murabaha income				
- Bank	<b>363,532</b>	110,170	<b>380,101</b>	123,713
- Other related parties*	<b>(177,204)</b>	74,082	<b>28,060</b>	170,898
	<b>186,328</b>	184,252	<b>408,161</b>	294,611
Finance costs				
- Bank	<b>1,364,828</b>	1,535,260	<b>3,368,943</b>	2,595,841
	<b>1,364,828</b>	1,535,260	<b>3,368,943</b>	2,595,841
<i>Key management compensation:</i>				
Salaries and other short-term benefits	<b>259,696</b>	205,133	<b>526,772</b>	546,251
End of service benefits	<b>39,313</b>	87,093	<b>72,531</b>	137,080
	<b>299,008</b>	292,226	<b>599,302</b>	683,331

#### Interim condensed consolidated statement of financial position:

	<i>Bank</i>	<i>Other related</i>	<i>Total</i>
	<i>KD</i>	<i>parties*</i>	<i>KD</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>
<b>31 March 2020</b>			
Receivables **	24,362	386	<b>24,748</b>
Cash and cash equivalents	57,499,271	1,851,584	<b>59,350,855</b>
Due to financial institutions	152,478,597	-	<b>152,478,597</b>
Other liabilities***	562,391	-	<b>562,391</b>
<b>30 September 2019 (Audited)</b>			
Receivables **	30,676	686	31,362
Cash and cash equivalents	84,708,594	3,335,367	88,043,961
Due to financial institutions	114,290,100	-	114,290,100
Other liabilities***	513,697	-	513,697
<b>31 March 2019</b>			
Capital advances	-	323,266	323,266
Receivables **	38,350	2,633	40,983
Cash and cash equivalents	21,354,870	6,954,883	28,309,753
Due to financial institutions	116,345,835	-	116,345,835
Other liabilities***	703,081	-	703,081

\* Other related parties represent subsidiaries of the Bank.

\*\* Receivables represents accrued murabaha income.

\*\*\* Other liabilities represent accrued finance cost on Islamic finance facilities obtained from the Bank.

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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 31 March 2020

### 10 SEGMENT INFORMATION

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

#### 31 March 2020:

	<i>Middle East KD</i>	<i>Asia KD</i>	<i>Europe KD</i>	<i>America KD</i>	<i>Africa KD</i>	<i>Total KD</i>
Segment revenue	<u>14,320,470</u>	<u>34,766,864</u>	<u>2,939,698</u>	<u>6,812,463</u>	<u>1,369,890</u>	<u>60,209,385</u>
Segment results before taxations	<u>(4,850,671)</u>	<u>(4,042,031)</u>	<u>1,212,639</u>	<u>2,736,147</u>	<u>457,131</u>	<u>(4,486,785)</u>
Total assets	<u>472,374,612</u>	<u>571,131,936</u>	<u>161,199,749</u>	<u>245,022,919</u>	<u>26,363,373</u>	<u>1,476,092,589</u>
Total liabilities	<u>530,172,027</u>	<u>465,877,763</u>	<u>56,225,472</u>	<u>89,693,115</u>	<u>22,437,416</u>	<u>1,164,405,793</u>
Other segmental information:						
Depreciation	<u>6,723,954</u>	<u>12,277,789</u>	<u>803,871</u>	<u>2,189,195</u>	<u>636,386</u>	<u>22,631,195</u>
Capital expenditure	<u>46,424,870</u>	<u>182,617,136</u>	<u>43,322,603</u>	<u>107,215,031</u>	<u>-</u>	<u>379,579,640</u>

#### 31 March 2019:

	<i>Middle East KD</i>	<i>Asia KD</i>	<i>Europe KD</i>	<i>America KD</i>	<i>Africa KD</i>	<i>Total KD</i>
Segment revenue	14,466,234	32,063,622	1,904,034	2,548,553	1,392,283	52,374,726
Segment results before taxations	<u>3,215,894</u>	<u>5,784,896</u>	<u>275,398</u>	<u>265,304</u>	<u>238,491</u>	<u>9,779,983</u>
Total assets	<u>238,035,795</u>	<u>618,762,545</u>	<u>189,293,675</u>	<u>157,904,369</u>	<u>27,646,801</u>	<u>1,231,643,185</u>
Total liabilities	<u>352,866,191</u>	<u>483,214,032</u>	<u>33,856,414</u>	<u>27,361,039</u>	<u>23,389,867</u>	<u>920,687,543</u>
Other segmental information:						
Depreciation	<u>5,468,773</u>	<u>14,137,831</u>	<u>984,616</u>	<u>1,565,545</u>	<u>822,919</u>	<u>22,979,684</u>
Capital expenditure	<u>5,321</u>	<u>117,912,592</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>117,917,913</u>

### 11 IMPACT OF COVID-19

The COVID-19 outbreak has developed rapidly in 2020, with a significant number of infections. Measures taken by various governments to contain the virus have affected economic activity and the group's business in various significant ways.

The currently known impact of COVID-19 on the group are:

- ▶ Allowance for credit loss on receivables amounted to KD 1,519,955.
- ▶ Impairment loss on aircraft, engines, and equipment amounted to KD 15,509,947.

In addition to the already known effects of the COVID-19 outbreak and resulting government measures, the macroeconomic uncertainty causes disruption to economic activity, and it is unknown what the longer term impact on the group's business may be. The COVID-19 virus can evolve in various directions. If society, and as a consequence business, is exposed to COVID-19 for a longer period of time, this may result in prolonged negative results and pressure on the group's liquidity.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL  
INFORMATION (UNAUDITED)

As at and for the period ended 31 March 2020

**11 IMPACT OF COVID-19 (continued)**

Depending on the duration of the COVID-19 crisis and continued negative impact on economic activity, the group may experience further negative results, liquidity restraints and incur additional impairments on its assets in 2020. Given the ongoing economic uncertainty, the exact impact on the group's activities in the remainder of 2020 and thereafter cannot be predicted at this stage.

This note describes the impact of the outbreak on the group's operations and the significant estimates and judgements applied by management in assessing the values of assets and liabilities as at 31 March 2020.

**11.1 Risk management**

The management is monitoring and reassessing the risk management objectives and policies based on the current updates on COVID-19. For the period ended 31 March 2020, there were no significant changes to the risk management objectives and policies as compared to the audited consolidated financial statements as at 30 September 2019.

**11.1.1 Credit risk**

The group is mainly exposed to credit risk on its trade receivables. As at 31 March 2020, the group has considered the impact of COVID-19 on the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate. There were no changes to the payment period given to customers during the period, however, the group will continue to individually assess the situation as more reliable data becomes available and accordingly may change the payment period for certain customers in the subsequent reporting periods. Refer to Note 11.2 for the estimates and assumptions used by the group to determine ECL on its trade receivables and contract assets.

The group is not significantly exposed to credit risk on its cash and cash equivalents. While cash and cash equivalents are subject to the impairment requirements of IFRS 9, management determined that the identified impairment loss was immaterial as these balances are mostly held with counterparties with appropriate credit-ratings assigned by international credit-rating agencies.

**11.2 Use of estimates and assumptions**

The group based its assumptions and estimates on parameters available when the interim condensed consolidated financial information is prepared. The COVID-19 outbreak has created uncertainty for revenue forecasts, sourcing and workforce availability, credit ratings, etc. but also volatility in stock prices, interest and currency exchange rates. Estimates based on such metrics may be subject to change due to market changes in the near term or circumstances arising that are beyond the control of the group.

Information about key assumptions and estimation uncertainties at the reporting date that have a significant risk of resulting in a material adjustment to the carrying amounts of assets in the next reporting period is described below:

***Impairment of aircraft, engines and equipment***

As at the reporting date, the group has considered the potential impact of the current economic volatility in the determination of the reported amounts of the aircraft, engines and equipment. Due to the negative impact of the COVID-19 outbreak on the aviation sector, the management has performed an impairment assessment on the carrying values of the aircraft and engines as at 31 March 2020 by comparing the carrying value of the aircraft and engines to their recoverable amounts.

***Trade receivables***

The group uses the simplified model in calculation of the ECL for trade receivables that do not contain a significant financing component by establishing 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. However, the segmentation applied in previous periods may no longer be appropriate and may need to be revised to reflect the different ways in which the COVID-19 outbreak affects different types of customers (e.g. by extending payment terms for trade receivables or by following specific guidance issued by the government in relation to the collection of lease or other payments).

The group will continue to individually assess significant exposures as more reliable data becomes available and accordingly determine if any adjustment in the ECL is required in subsequent reporting periods.