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

CONSOLIDATED FINANCIAL STATEMENTS

30 SEPTEMBER 2020

Ernst & Young
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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 2020, 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 2020, 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)

Impairment of aircraft and engines

As at 30 September 2020, aircraft and engines are carried at KD 1,161,087,214 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 taking into consideration expected changes in future lease rental due to COVID-19 impact;

- 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)

Expected Credit Losses ("ECL") on receivables

As at 30 September 2020, receivables amounted to KD 54,915,847 (excluding prepayments and advances) net off expected credit loss of KD 21,646,630 as disclosed in note 20.1.

The group applies a simplified approach in calculating ECL for receivables by establishing a provision matrix that is based on historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment in which each debtors operate. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns.

Due to the significance of receivables and the complexity involved in the ECL calculation, this was considered as a key audit matter.

Our audit procedures included, among others, the following:

- We assessed the reasonableness of the assumptions used in the ECL calculation by comparing them with historical data adjusted for current market conditions and forward-looking information;

- We performed substantive procedures to test, on a sample basis, the completeness and accuracy of the information included in the debtors' ageing report;

- Further, in order to evaluate the appropriateness of management judgements, we verified on a sample basis, the customer's historical payment patterns and whether any post year-end payments had been received up to the date of completing our audit procedures; and

- We also considered the adequacy of the group's disclosures relating to the ECL, management's assessment of the credit risk and their responses to such risks in Note 20.1 to the consolidated financial statements.

Other information included in the group's 2020 Annual Report

Management is responsible for the other information. Other information consists of the information included in the group's 2020 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 2020 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 2020 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 on the basis of 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 the purpose of expressing an opinion on the effectiveness of the group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made 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.

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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)

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.

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 2020 that might have had a material effect on the business of the Parent Company or on its financial position.

We further report that, during the course of our audit, we have not become aware of any material violations of the provisions of Law No. 7 of 2010 concerning the Capital Markets Authority and its related regulations during the year ended 30 September 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

20 December 2020
Kuwait

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 September 2020

	Notes	***2020 KD***	*2019 KD*
ASSETS			
Aircraft, engines and equipment	4	**1,161,111,356**	876,397,490
Capital advances	5	**162,874,986**	304,396,402
Receivables	6	**57,285,113**	8,793,145
Cash and cash equivalents	7	**39,732,227**	93,441,271
TOTAL ASSETS		**1,421,003,682**	1,283,028,308
EQUITY AND LIABILITIES			
EQUITY			
Share capital	8	**95,209,348**	95,209,348
Share premium	8	**17,829,167**	17,829,167
Statutory reserve	9	**29,571,005**	29,571,005
Foreign currency translation reserve		**17,110,807**	14,929,164
Retained earnings		**144,306,710**	161,711,950
TOTAL EQUITY		**304,027,037**	319,250,634
LIABILITIES			
Due to financial institutions	10	**934,051,774**	786,512,749
Security deposits	11	**11,526,570**	10,798,519
Maintenance reserve and provisions	12	**156,918,631**	149,668,892
Other liabilities	13	**14,479,670**	16,797,514
TOTAL LIABILITIES		**1,116,976,645**	963,777,674
TOTAL EQUITY AND LIABILITIES		**1,421,003,682**	1,283,028,308

Ahmed Abdullah Al-Zabin
Chairman of the Board

Barrak A. Al-Sabeeh
Vice Chairman of the Board

The attached notes 1 to 23 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 30 September 2020

	Notes	***2020*** ***KD***	*2019* *KD*
Operating lease income		**115,428,890**	104,432,913
Murabaha income		**481,160**	799,637
Gain on disposal of aircraft, engines and equipment	4	**1,430,140**	7,828,392
Other income		**2,020,411**	657,810
Staff costs		**(2,266,617)**	(3,104,503)
Depreciation	4	**(48,070,147)**	(47,833,447)
Impairment loss on aircraft, engines and equipment	4	**(21,830,746)**	(472,155)
Re-lease provision	12	**(3,196,390)**	-
Other operating expenses		**(5,416,607)**	(5,724,894)
Allowance for credit loss on receivables	6	**(11,120,812)**	(8,826,226)
Finance costs		**(37,079,787)**	(28,708,231)
(LOSS) PROFIT FOR THE YEAR BEFORE CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES (KFAS), NATIONAL LABOUR SUPPORT TAX (NLST), ZAKAT, AND DIRECTORS' FEES		**(9,620,505)**	19,049,296
Contribution to KFAS		**-**	(171,444)
NLST		**(102,848)**	(688,906)
Zakat		**(41,139)**	(275,563)
Directors' fees	17	**(24,000)**	(217,000)
(LOSS) PROFIT FOR THE YEAR		**(9,788,492)**	17,696,383
Basic and diluted (loss) earnings per share	3	**(10.28) fils**	18.59 fils

The attached notes 1 to 23 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September 2020

	2020	*2019*
	KD	*KD*
(Loss) profit for the year	**(9,788,492)**	17,696,383
Other comprehensive income:		
Items that are not reclassified subsequently to consolidated statement of income		
Foreign currency translation adjustments	**2,181,643**	969,515
Other comprehensive income for the year	**2,181,643**	969,515
Total comprehensive (loss) income for the year	**(7,606,849)**	18,665,898

The attached notes 1 to 23 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 September 2020

	Share capital KD	*Share premium KD*	*Statutory reserve KD*	*Foreign currency translation reserve KD*	*Retained earnings KD*	*Total KD*
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 year	-	-	-	-	(9,788,492)	(9,788,492)
Other comprehensive income for the year	-	-	-	2,181,643	-	2,181,643
Total comprehensive income for the year	-	-	-	2,181,643	(9,788,492)	(7,606,849)
Cash dividend (Note 8)	-	-	-	-	(7,616,748)	(7,616,748)
At 30 September 2020	**95,209,348**	**17,829,167**	**29,571,005**	**17,110,807**	**144,306,710**	**304,027,037**
As at 1 October 2018 as previously reported (audited)	95,209,348	17,829,167	27,666,075	13,959,649	156,759,199	311,423,438
Impact of adopting IFRS 9	-	-	-	-	(1,317,767)	(1,317,767)
As at 1 October 2018 (restated)	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 8)	-	-	-	-	(9,520,935)	(9,520,935)
Transfer to statutory reserve (Note 9)	-	-	1,904,930	-	(1,904,930)	-
At 30 September 2019	95,209,348	17,829,167	29,571,005	14,929,164	161,711,950	319,250,634

The attached notes 1 to 23 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 30 September 2020

	Notes	*2020* *KD*	*2019* *KD*
OPERATING ACTIVITIES			
(Loss) profit for the year		**(9,788,492)**	17,696,383
Adjustments to reconcile (loss) profit for the year to net cash flows:			
Depreciation	4	**48,070,147**	47,833,447
Impairment loss on aircraft, engines and equipment	4	**21,830,746**	472,155
Murabaha income		**(481,160)**	(799,637)
Finance costs		**37,079,787**	28,708,231
Allowance for credit loss on receivables		**11,120,812**	8,826,226
Re-lease provision		**3,196,390**	-
Gain on disposal of aircraft, engines and equipment	4	**(1,430,140)**	(7,828,392)
		109,598,090	94,908,413
Changes in operating assets and liabilities:			
Receivables		**(2,224,039)**	(10,020,109)
Other liabilities		**(1,560,848)**	998,771
Maintenance reserve		**7,872,561**	8,294,635
Cash from operations		**113,685,764**	94,181,710
Finance costs paid		**(36,245,145)**	(28,805,659)
Net cash flows from operating activities		**77,440,619**	65,376,051
INVESTING ACTIVITIES			
Purchase of aircraft, engines and equipment	4	**(134,502,635)**	(150,907,697)
Proceeds from disposal of aircraft, engines and equipment		**24,281,796**	108,406,784
Capital advances for purchase of aircraft, engines and equipment	5	**(155,872,696)**	(121,999,878)
Murabaha income received		**496,054**	803,222
Net cash flows used in investing activities		**(265,597,481)**	(163,697,569)
FINANCING ACTIVITIES			
Proceeds from financing facilities		**310,534,213**	360,662,600
Repayment of financing facilities		**(169,197,433)**	(207,144,562)
Dividends paid	8	**(7,616,748)**	(9,520,935)
Net cash flows from financing activities		**133,720,032**	143,997,103
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(54,436,830)**	45,675,585
Foreign currency adjustment		**727,786**	244,851
Cash and cash equivalents at the beginning of the year		**93,441,271**	47,520,835
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	7	**39,732,227**	93,441,271

The attached notes 1 to 23 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, 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 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 2020 were authorised for issue in accordance with a resolution of the board of directors on 20 December 2020 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

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous financial year, except as mentioned below:

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 2019.

The nature and the impact of each new standard and amendment is described below:

Several other amendments and interpretations apply for the first time during the year ended 30 September 2020, 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.

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 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.

The group adopted IFRS 16 using the modified retrospective method and accordingly, the consolidated comparative information is not restated with the date of initial application of 1 October 2019. 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').

The adoption IFRS 16 did not have impact on the retained earnings as at as at 1 October 2019.

Nature of the effect of adoption of IFRS 16

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 asset or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognised as finance costs) and reduction of the lease liability. In an operating lease, the leased asset was not capitalised and the lease payments were recognised as rent expense in the 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 it 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 also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

The adoption of IFRS 16 did not have any material impact on the group's consolidated financial statements.

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

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 year ended 30 September 2020 by KD 9,506,319, reduced the loss for the year by KD 9,401,711, and reduced the basic and diluted loss per share by 9.87 fils.

2.4 STANDARDS ISSUED BUT NOT EFFECTIVE

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the group's financial statements are disclosed below. The group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Amendments to IFRS 3: *Definition of a Business*
In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the group will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8: *Definition of Material*
In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments to the definition of material is not expected to have a significant impact on the group's consolidated financial statements.

2.5 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 2020. 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

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

2.5 BASIS OF CONSOLIDATION (continued)

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.

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

2.5 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 2020.

Name	*Country of incorporation*	*Share capital US$/Euro/ Pound*	*Activities*
Osprey Aircraft Leasing Limited (Thirteen)	Cayman Islands	US$ 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 (DIFC) Two SPC Limited	United Arab Emirates	US$ 1,000	Purchasing, financing, leasing and subleasing of aircraft
Alafco Aviation One PCC Limited	United Arab Emirates	US$ 100	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)

2.6 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)	25 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 accounting policies applied from 1 October 2019
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.

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 in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the group uses the incremental borrowing rate at the lease commencement date if the interest 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 interest 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.

Short-term leases and leases of low-value assets
The group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

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

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases accounting policies applied from 1 October 2019 (continued)

Group as a lessor
Leases in which the group does not transfer substantially all the risks and benefits of ownership of an 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. Contingent rents are recognised as revenue in the period in which they are earned.

Leases accounting policies applied up to 30 September 2019
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.

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.

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

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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
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).

(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.

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

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

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.

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

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

b) Classification and subsequent measurement

Financial assets
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.

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 2019

▸ 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 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)

2.6 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

Determination of ECL on cash and cash equivalents and receivables
For 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 365 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.

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

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

2.7 SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS
The preparation of the group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the group's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Existing circumstances and assumptions about future developments may change due to circumstances beyond the group's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the consolidated financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

Judgments

Classification of financial assets
The group determines the classification of financial assets based on the 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.

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

2.7 SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Judgments (continued)

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 15% of the purchase price (in aggregate) except for BFE – wide body aircraft which does not have a residual value.

Determining the lease term of contracts with renewal and termination options – Group as lessee
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 applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate a lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. 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 or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

Estimation uncertainty
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also described in the individual notes of the related financial statement line items below. The group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the group. Such changes are reflected in the assumptions when they occur.

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.

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

2.7 SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimation uncertainty (continued)

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.

Impairment of financial assets at amortised cost
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.

3 BASIC AND DILUTED (LOSS) EARNINGS PER SHARE

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

	2020	*2019*
(Loss) profit for the year (KD)	**(9,788,492)**	17,696,383
Weighted average number of ordinary shares	**952,093,482**	952,093,482
Basic and diluted (loss) earnings per share	**(10.28) fils**	18.59 fils

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

4 AIRCRAFT, ENGINES AND EQUIPMENT

	Aircraft and engines KD	***Furniture and fixtures KD***	***Office equipment KD***	***Total KD***
Cost				
At 1 October 2019	**1,098,653,125**	**332,986**	**164,431**	**1,099,150,542**
Additions	**134,489,071**	**951**	**12,613**	**134,502,635**
Transfer from capital advances (Note 5)	**242,191,776**	**-**	**-**	**242,191,776**
Disposals	**(38,847,750)**	**-**	**-**	**(38,847,750)**
Foreign currency adjustment	**7,767,525**	**2,354**	**1,163**	**7,771,042**
At 30 September 2020	**1,444,253,747**	**336,291**	**178,207**	**1,444,768,245**
Depreciation and impairment				
At 1 October 2019	**222,310,954**	**313,443**	**128,655**	**222,753,052**
Depreciation charge for the year	**48,025,069**	**19,571**	**25,507**	**48,070,147**
Impairment loss on aircraft, engines and equipment	**21,830,746**	**-**	**-**	**21,830,746**
Disposal	**(10,654,197)**	**-**	**-**	**(10,654,197)**
Foreign currency adjustment	**1,653,961**	**2,239**	**941**	**1,657,141**
At 30 September 2020	**283,166,533**	**335,253**	**155,103**	**283,656,889**
Net carrying amount at 30 September 2020	**1,161,087,214**	**1,038**	**23,104**	**1,161,111,356**

4 AIRCRAFT, ENGINES AND EQUIPMENT (continued)

	Aircraft and engines KD	*Furniture and fixtures KD*	*Office equipment KD*	*Total KD*
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

Aircraft with carrying value of KD 968,595,576 (2019: KD 828,941,885) are subject to finance lease and are mortgaged against the financing facilities with the legal title of the same with the lenders (Note 10).

During the year ended 30 September 2020, the group recognized gain of KD 1,430,140 (2019: KD 7,828,392) 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 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 year ended 30 September 2020, the group recorded impairment loss of KD 21,830,746 (2019: KD 472,155) 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 year 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

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.

4 AIRCRAFT, ENGINES AND EQUIPMENT (continued)

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 and accordingly lead to further impairment. 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.

5 CAPITAL ADVANCES

	2020 ***KD***	*2019* *KD*
At 1 October	**304,396,402**	237,501,172
Additional payments	**155,872,696**	121,999,878
Transfer to aircraft, engines and equipment (Note 4)	**(242,191,776)**	(55,848,920)
Transfer to receivables	**(57,354,432)**	-
Foreign currency adjustment	**2,152,096**	744,272
	162,874,986	304,396,402

Capital advances represent progress payments made towards the purchase of aircraft and engines. The commitment in this respect is disclosed in Note 15.

During the year, the group filed a legal case against a manufacturer relating to refund of capital advances relating to 40 pre-ordered aircrafts amounting to KD 103,034,704. The manufacturer defaulted on delivering of the first 10 aircrafts out of total 40 aircrafts, and accordingly, the group claimed full refund of capital advances from the manufacturer against non-performance of the delivery obligation. As at the reporting date, the group has withdrawn the legal case and has signed a settlement agreement with the manufacturer to cancel delivery of 20 pre-ordered aircrafts out of the total 40 pre-ordered aircrafts with a total refund of capital advances to the group amounting to KD 57,354,432.

6 RECEIVABLES

	2020 ***KD***	*2019* *KD*
Lease and maintenance receivables	**49,578,101**	14,721,173
Less: Allowance for expected credit losses	**(21,646,630)**	(10,438,926)
	27,931,471	4,282,247
Receivables from a manufacturer	**24,398,777**	-
Prepayments and advances	**2,369,266**	2,404,664
Other receivables	**2,585,599**	2,106,234
	57,285,113	8,793,145

6 RECEIVABLES (continued)

Set out below is the movement in the allowance for expected credit losses of lease and maintenance receivables:

	2019 ***KD***	*2018* *KD*
At 1 October	**10,438,926**	286,019
Impact of adopting IFRS 9	**-**	1,317,767
Allowance for credit loss on receivables during the year	**11,120,812**	8,826,226
Write off	**-**	(5,404)
Foreign currency adjustment	**86,892**	14,318
At 30 September	**21,646,630**	10,438,926

Information about the credit exposures are disclosed in Note 21.1.

7 CASH AND CASH EQUIVALENTS

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

	2020 ***KD***	*2019* *KD*
Cash and balances with financial institutions	**27,853,416**	25,566,085
Short-term murabahas (3 months or less from the date of placement)	**11,878,811**	67,875,186
Cash and cash equivalents	**39,732,227**	93,441,271

Short-term murabahas represent short-term deals in international commodity transactions which earn a profit rate of 0.08 %-2.45% per annum (2019: 1% - 2.85% per annum).

8 SHARE CAPITAL AND SHARE PREMIUM

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

On 31 December 2019, the shareholders at the annual general assembly meeting 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 (30 September 2018: 10%) of par value of each share being 8 fils per share (30 September 2018: 10 fils per share) amounting to KD 7,616,748 (30 September 2018: KD 9,520,935), which was paid subsequently.

Share premium
Share premium is not available for distribution.

9 STATUTORY RESERVE

In accordance with the Companies' Law, and the parent company's Memorandum of Incorporation and Articles of Association, a minimum of 10% of the profit for the year before directors' fees and contribution to KFAS, NLST and Zakat shall be transferred to the statutory reserve. The annual general assembly of the parent company may resolve to discontinue such transfer when the reserve exceeds 50% of the issued share capital. No transfer is required in the year losses are incurred.

9 STATUTORY RESERVE (continued)

The reserve may only be used to offset losses or enable the payment of a dividend up to 5% of paid-up share capital in years when profit is not sufficient for the payment of such dividend due to absence of distributable reserves. Any amounts deducted from the reserve shall be refunded when the profits in the following years suffice, unless such reserve exceeds 50% of the issued share capital.

10 DUE TO FINANCIAL INSTITUTIONS

	2020 KD	*2019 KD*
Balance due to financial institutions - financing lease facilities	**635,625,244**	547,137,377
Unsecured financing facilities	**307,577,735**	249,099,406
	943,202,979	796,236,783
Less: deferred financing arrangement fees	**(9,151,205)**	(9,724,034)
	934,051,774	786,512,749

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:

	2020		*2019*	
	Minimum payments KD	***Present value of payments KD***	*Minimum payments KD*	*Present value of payments KD*
Within one year	**97,777,789**	**73,481,101**	86,832,702	64,755,719
After one year but not more than five years	**455,635,240**	**387,183,613**	334,009,397	269,501,791
After 5 years	**190,311,982**	**174,960,530**	232,955,711	212,879,867
Total minimum lease payments	**743,725,011**	**635,625,244**	653,797,810	547,137,377
Less: amounts representing finance charges	**(108,099,767)**	**-**	(106,660,433)	-
Present value of minimum lease payments	**635,625,244**	**635,625,244**	547,137,377	547,137,377

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 2019 KD	***Cash inflows KD***	***Cash outflows KD***	***Foreign currency adjustment KD***	***30 September 2020 KD***
Due to financial institutions - Gross	**796,236,783**	**310,534,213**	**(169,197,433)**	**5,629,416**	**943,202,979**
Total liabilities from financing activities	**796,236,783**	**310,534,213**	**(169,197,433)**	**5,629,416**	**943,202,979**

	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	640,710,898	360,662,600	(207,144,562)	2,007,847	796,236,783

11 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.

12 MAINTENANCE RESERVE AND PROVISIONS

	Balance at 1 October 2019 KD	***Additions KD***	***Releases/ utilizes KD***	***Foreign currency adjustment KD***	***Balance at 30 September 2020 KD***
Maintenance reserve	**124,195,344**	**16,529,709**	**(13,087,886)**	**878,067**	**128,515,234**
Heavy maintenance provisions	**23,780,415**	**-**	**-**	**168,131**	**23,948,546**
Re-lease provisions	**1,693,133**	**3,196,390**	**(450,402)**	**15,730**	**4,454,851**
Total	**149,668,892**	**19,726,099**	**(13,538,288)**	**1,061,928**	**156,918,631**

	Balance at 1 October 2018 KD	*Additions KD*	*Releases/ utilizes KD*	*Foreign currency adjustment KD*	*Balance at 30 September 2019 KD*
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	153,079,598	23,343,589	(27,234,020)	479,725	149,668,892

Maintenance reserve amounting to KD 8,869,906 (2019: KD 8,869,906) is backed by letters of credit issued to a financial institution.

13 OTHER LIABILITIES

	2020 KD	*2019 KD*
Operating lease income received in advance	**1,186,519**	2,019,946
Accrued expenses	**3,793,179**	4,541,748
Commitment deposits	**628,001**	2,413,092
End of service benefits	**1,233,205**	1,059,256
KFAS, NLST, Zakat, and other tax payable	**269,720**	1,273,222
Other payables	**7,369,046**	5,490,250
	14,479,670	16,797,514

14 OPERATING LEASE INCOME

The future minimum lease rent receivable on the operating lease is KD 788,237,716 (2019: KD 735,593,698) and is receivable as follows:

	2020 KD	*2019 KD*
Income receivable within one year	**175,106,241**	103,932,889
Income receivable within one year to five years	**377,522,044**	351,227,865
Income receivable after five years	**235,609,431**	280,432,944
	788,237,716	735,593,698

15 CAPITAL COMMITMENTS

There are potential commitments in respect of purchase of aircraft and engines amounting to KD 967,995,400 (2019: KD 1,561,290,499) (Note 5 and Note 21.2).

16 CONTINGENT LIABILITIES

As at 30 September 2020, the group has contingent liabilities amounting to KD 11,859,538 (2019: KD 11,838,550) in respect of letters of credit arising in the ordinary course of business from which it is anticipated that no material liabilities will arise.

17 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*	***2020 KD***	*Bank KD*	*Other related parties* KD*	*2019 KD*
Receivables**	**16,811**	**43**	**16,854**	30,676	686	31,362
Cash and cash equivalents	**36,598,153**	**1,842,549**	**38,440,702**	84,708,594	3,335,367	88,043,961
Due to financial institutions	**149,204,914**	**-**	**149,204,914**	114,290,100	-	114,290,100
Other liabilities***	**1,032,661**	**-**	**1,032,661**	513,697	-	513,697

Consolidated statement of income:

	Bank KD	*Other related parties* KD*	***2020 KD***	*Bank KD*	*Other related parties* KD*	*2019 KD*
Murabaha income	**448,246**	**32,914**	**481,160**	585,901	213,736	799,637
Finance costs	**6,576,243**	**-**	**6,576,243**	5,695,762	-	5,695,762

Key management compensation and directors' fees:	***2020 KD***	*2019 KD*
Salaries and other short-term benefits	**1,043,774**	950,486
End of service benefits	**129,459**	201,581
Directors' fees	**24,000**	217,000
	1,197,233	1,369,067

Directors' fees of KD 24,000 for the year ended 30 September 2020 (2019: KD 217,000) 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.

18 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.

18 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

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

30 September 2020	***Less than 1 year KD***	***Over 1 year KD***	***Total KD***
ASSETS			
Aircraft, engines and equipment	**-**	**1,161,111,356**	**1,161,111,356**
Capital advances	**23,428,125**	**139,446,861**	**162,874,986**
Receivables	**57,285,113**	**-**	**57,285,113**
Cash and cash equivalents	**39,732,227**	**-**	**39,732,227**
Total assets	**120,445,465**	**1,300,558,217**	**1,421,003,682**
LIABILITIES			
Due to financial institutions	**219,993,273**	**714,058,501**	**934,051,774**
Security deposits	**1,115,637**	**10,410,933**	**11,526,570**
Maintenance reserve and provisions	**8,725,590**	**148,193,041**	**156,918,631**
Other liabilities	**12,407,924**	**2,071,746**	**14,479,670**
Total liabilities	**242,242,424**	**874,734,221**	**1,116,976,645**

30 September 2019	*Less than 1 year KD*	*Over 1 year KD*	*Total KD*
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

19 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 2020	***Middle East KD***	***Asia KD***	***Europe KD***	***America KD***	***Africa KD***	***Total KD***
Segment revenue	**27,992,847**	**69,664,606**	**5,902,041**	**13,048,097**	**2,753,010**	**119,360,601**
Segment results before directors' fees and taxation	**(21,548,500)**	**9,829,278**	**2,127,946**	**(10,619)**	**(18,610)**	**(9,620,505)**
Total assets	**430,133,241**	**576,351,557**	**179,748,986**	**209,247,495**	**25,522,403**	**1,421,003,682**
Total liabilities	**511,009,886**	**444,930,650**	**53,523,016**	**85,124,461**	**22,388,632**	**1,116,976,645**
Other segmental information:						
Depreciation	**15,129,007**	**24,787,022**	**1,944,078**	**4,931,121**	**1,278,919**	**48,070,147**
Finance costs	**16,627,127**	**16,266,990**	**1,449,852**	**2,506,077**	**229,741**	**37,079,787**
Allowance for credit loss on receivables	**398,475**	**6,944,685**	**251**	**3,777,401**	**-**	**11,120,812**
Capital expenditure	**227,303,127**	**-**	**42,992,700**	**106,398,584**	**-**	**376,694,411**

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

20 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.

21 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. The management is monitoring and reassessing the risk management objectives and policies based on the current updates on COVID-19. No significant changes were made in the risk management objectives and policies during the years ended 30 September 2020 and 30 September 2019.

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.

21.1 CREDIT RISK

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The group is exposed to credit risk on its cash and cash equivalents and receivables.

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

	2020	*2019*
	KD	*KD*
Cash and cash equivalents	**39,732,227**	93,441,271
Receivables*	**54,915,847**	6,388,481
	94,648,074	99,829,752

* Excluded from receivables are prepayments and advances of KD 2,369,266 for the year ended 30 September 2020 (2019: KD 2,404,664).

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

The group applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all receivables. However, as at 30 September 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. During the current year, the group has individually considered the situation of each customer and provided extension in the payment terms for certain customers. The group will continue to individually assess the situation as more reliable data becomes available and accordingly may change the payment terms for certain customers in the subsequent reporting periods.

21 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

21.1 CREDIT RISK (continued)

Receivables (continued)
Generally, receivables are written off if past due for more than one year and are not subject to enforcement activity. The group evaluates the concentration of risk with respect to receivables as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

During the year, the group has considered certain receivables to be in default which has indicated that the group is unlikely to receive the outstanding contractual amounts. As a result, the management has recorded an allowance for credit loss on receivables amounting to KD 11,120,812 (2019: KD 8,826,226).

Cash and cash equivalents
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.

21.2 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 15) 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 2020	***Within 3 months KD***	***3 to 12 Months KD***	***1 to 5 years KD***	***More than 5 years KD***	***Total KD***
Due to financial institutions	**27,357,645**	**225,824,372**	**620,462,579**	**190,311,976**	**1,063,956,572**
Security deposits	**759,019**	**356,617**	**6,967,178**	**3,443,756**	**11,526,570**
Other liabilities (excluded operating lease income received in advance)	**2,645,547**	**8,575,858**	**659,407**	**1,412,339**	**13,293,151**
TOTAL LIABILITIES	**30,762,211**	**234,756,847**	**628,089,164**	**195,168,071**	**1,088,776,293**
Capital commitments	**1,458,171**	**30,778,125**	**383,882,899**	**551,876,205**	**967,995,400**

30 September 2019	*Within 3 months KD*	*3 to 12 Months KD*	*1 to 5 years KD*	*More than 5 years KD*	*Total KD*
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

21 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

21.3 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.

21.3.1 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 or loss for one year is the effect of the assumed changes in profit rates financial assets and liabilities held as at the reporting date.

	Change in basis points	*Effect on (loss) profit for the year KD*
30 September 2020	**±25**	**±50,431**
30 September 2019	±25	±88,424

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

21.3.2 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.

22 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.

	2020 KD	*2019 KD*
Due to financial institutions	**934,051,774**	786,512,749
Less: Cash and cash equivalents	**(39,732,227)**	(93,441,271)
Net debt	**894,319,547**	693,071,478
Total equity	**304,027,037**	319,250,634
Adjust: Foreign currency translation reserve	**(17,110,807)**	(14,929,164)
Capital	**286,916,230**	304,321,470
Gearing ratio	**3.12**	2.28

23 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 11,120,812.
- Impairment loss on aircraft, engines, and equipment amounted to KD 21,830,746.

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.

The group reacted to the impact of the COVID-19 pandemic pro-actively by engaging with its airline customers to arrange deferral of certain rental payments in order to provide cashflow relief, while simultaneously engaging with lenders to arrange deferral of certain loan payments to mitigate the reduced rental cash flows from airlines. The group has entered into rent deferral agreements with 7 airline customers. The rent deferral agreements provide that deferred rents are repaid to the group over periods of 6-12 months with finance cost charged on the deferred amounts for certain agreements. The group has also entered into loan principal payment deferral agreements for 19 loans and the deferred loan principal payments are repayable to lenders over periods of 6-12 months with interest charged on the deferred amounts.

Due to the current challenging environment, the management have considered the impact on the group, by evaluating all cash inflows and outflows of the group, over the coming year under the following assumptions;

- available cash and cash equivalents,

- liquidity from loan deferrals,

- expected sales of aircrafts,

- deferral of certain contractually committed lease cash inflows;

- forecasted cash outflows for all contractual debt and lease obligations and selling, general and administrative expenses for the next 12 months

Based on this analysis and all information available at present, the management believes that the actions that they have taken and intend to take will ensure that the group has sufficient liquidity to meet its obligations as they fall due and that it continues to be appropriate to prepare the consolidated financial statements on a going concern basis.