ALIA -THE ROYAL JORDANIAN AIRLINES COMPANY (ROYAL JORDANIAN)

A PUBLIC SHAREHOLDING COMPANY

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Alia – The Royal Jordanian Airlines Company (Royal Jordanian)

Amman - Jordan

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of **Alia – The Royal Jordanian Airlines Company (Royal Jordanian)** (the Company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated income statement, 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 financial statements present fairly in all material respects the financial position of the Group as at 31 December 2020 and its financial performance and its 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 Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Jordan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

As disclosed in note (2-1) to the consolidated financial statements, the Company's accumulated losses of JD 246.4 million as of 31 December 2020 represents 90% of the Company's capital. Also, the Company's current liabilities exceeded its current assets by an amount of JD 143.8 million as of 31 December 2020. These events or conditions indicate that a material uncertainty exists that may cast significant doubt about the entity's ability to continue as a going concern. According to Article (266) of the Jordanian Company's Law No. 22 for the year 1997 and its amendments, if the accumulated losses of the public shareholding company exceed 75% of its capital, the Company shall be liquidated unless the General Assembly of the Company issues a decision on its extraordinary meeting to increase the Company's capital or to deal with the Company's losses.

The Prime Ministry of Jordan resolved to authorize the Ministry of Finance to proceed with further procedures to increase the Company's capital by JD 50 million over two phases. The first phase was received during the fourth quarter of 2020 and the second phase will be received during 2021. The Company received a comfort letter from the Ministry of Finance (the Jordanian Government's representative), stating that the Government is in favor of continuing to support the Company's operations in the future. Also, the Company's management is in the process of performing the restructuring business plan that supports the Company's business continuity and its ability to recover its assets and generate future cash flows to settle its liabilities. Our opinion is not modified in this regard.

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 for the year ended 31 December 2020. In addition to the matter described in the Material Uncertainty Related to Going Concern paragraph, we have determined the matters described below to be the key audit matters to be communicated in our report. 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 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.

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1. **Passenger and cargo revenue recognition** Refer to note (24) to the consolidated financial statements	
Key audit matter	**How the key audit matter was addressed in the audit**
Passenger tickets and cargo airway bills sales are reflected in the consolidated statement of financial position as deferred revenue and recognized as revenue when the transportation service is provided. Tickets that are not used for transportation ('unused tickets') are recognized as revenue after 12 months from the date of their issuance. We focus on revenue recognition because: - Travel restrictions imposed due to COVID-19 outbreak have significant impact on passengers and cargo revenues for the year ended 31 December 2020. - Passengers and Cargo revenues are material to the financial statements, and recognition of these revenues upon fulfillment of the performance obligation requires a process that is highly automated. In respect of customer loyalty program; the Group provides a frequent flyer program; Royal Club, in a form of free travel awards to its members on accumulated mileage earned from flights. A portion of the fair value of the consideration received is allocated to the award credits and deferred, this is then recognized as revenue over the period that the award credits are redeemed. The fair value of the award credits is estimated by reference to the fair value of the awards for which the points could be redeemed and is reduced to take into account the proportion of award credits that are not expected to be redeemed by customers. The Group exercises its judgment in determining the assumptions to be adopted in respect of the number of points not expected to be redeemed through the use of statistical modelling and historical trends and in determining the mix and fair value of the award credits.	Our audit procedures included: - Considering the appropriateness of the Group's revenue recognition policies in accordance with IFRS (15). - Testing the Group's controls around revenue recognition and key controls in the revenue cycle including those controls that requires the involvement of our IT specialists. - Testing refunds of passengers' tickets and cargo airwaybills resulted from travel restrictions during the COVID-19 outbreak. - Selecting a sample before and after the cutoff period to assess whether the revenue was recognized in the correct period. - Performing substantive analytical procedures using financial and non-financial information about the revenue figures for the year. - Selecting and testing a representative sample of journal entries. - Obtaining an understanding of management's process related to scoping and identifying the revenue streams.

2. Lease contracts

Refer to notes (19) to the consolidated financial statements

Key audit matter

IFRS (16) specifies how to recognize, measure, present and disclose leases. The standard requires the lessee to recognize assets and liabilities for all leases unless the lease term is short-term lease (i.e. 12 months or less) or the underlying asset has a low value.

We focus on lease contracts because:

- There is a high level of judgment needed in establishing the underlying key assumptions that include identifying which contracts are in scope of IFRS (16), the lease term and the discount rate used in the calculation.
- We need to determine whether amendments to lease contracts resulted from COVID-19 are properly accounted for as either a modification of the lease contract or as COVID-19 rent concessions arrangements under IFRS 16.
- The recoverability of Right Of Use Assets "ROUA" is considered a complex area that requires the use of models, assumptions and forecasts of future cash flows to determine the recoverable amount of ROUA's.

How the key audit matter was addressed in the audit

Our procedures included:

- Evaluating the application of IFRS (16) for new contracts and testing the resulted impact on the Group's consolidated financial statements.
- Testing management's assumptions used in preparation of assessments related to new contracts, including if whether exemptions are acceptable and in accordance with IFRS (16) (short term leases and leases for low value assets).
- Assessing whether the accounting treatment regarding leases is consistent with the definitions of IFRS (16) including factors such as lease term, discount rate and measurement principles.
- Reviewing management's assumptions in determining the interest rate to be used in calculating the net present value of future lease payments, and that the there are no implicit interest rate within the lease contracts, hence, ensuring that management rationale of calculation of the average incremental borrowing rate is appropriate.
- Recalculating the incremental borrowing rate used in discounting the future lease payments.
- Obtaining and reviewing lease contracts' amendments and determining if such amendments are within the scope of COVID-19 rent concessions arrangements identified by IFRS 16.
- Assessment of the valuation models and inputs used in the calculation of the recoverable amounts of the ROUA's and impairment losses including assessment of reasonableness of key inputs used in the valuation such as the expected future cash flows and involving our specialists to support our conclusions.

3. **Obsolete and slow-moving spare parts and other supplies** Refer to note (13) of the consolidated financial statements	
Key audit matter	**How the key audit matter was addressed in the audit**
Spare parts and other supplies are valued at the lower of cost or net realizable value. We focus on this area as there is a risk of inventory obsolescence, any provision for obsolescence is determined by reference to specific items of stock. A regular review is undertaken at each reporting date to determine the extent of any provision for obsolescence.	We critically tested the basis for inventory obsolescence in line with management estimates. In doing so, we tested the ageing profile of inventory, the process for identifying obsolete and slow-moving items in inventory and historical loss rates.

Other information included in the Group's 2020 annual report

Other information consists of the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

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's 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 exist. 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 skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made 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 exist, 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's 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, actions taken to eliminate threats or safeguards applied.

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 period, 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

The Company maintains proper books of accounts which are in agreement with the consolidated financial statements.

The partner in charge of the audit resulting in this auditor's report was Ali Hasan Samara; license number 503.

Amman – Jordan
21 April 2021

Ernst + Young

Alia - The Royal Jordanian Airlines Company (Royal Jordanian)
Public Shareholding Company
Consolidated Statement of Financial Position
At 31 December 2020
(In Thousands of Jordanian Dinars)

	Notes	2020	2019
ASSETS			
Non- current assets			
Right-of-use assets	19	**433,676**	501,886
Property and equipment	8	**73,896**	106,845
Advances on purchase and modification of aircrafts	9	**4,813**	4,813
Financial assets at fair value through other comprehensive income	10	**2,265**	2,697
Investments in associates	11	**16,755**	18,760
Restricted cash against lease contracts		**22,959**	37,129
Deferred tax assets	32	**12,322**	12,322
		566,686	684,452
Current assets			
Other current assets	12	**10,498**	21,158
Spare parts and supplies, net	13	**8,210**	7,409
Accounts receivable, net	14	**57,532**	68,011
Cash and bank balances	15	**53,508**	79,462
		129,748	176,040
TOTAL ASSETS		**696,434**	860,492
EQUITY AND LIABILITIES			
Shareholders' equity			
Paid-in capital	17	**274,610**	274,610
Share discount	17	**(78,205)**	(78,205)
Payments in respect of capital increase	17	**25,000**	-
Statutory reserve	17	**14,808**	14,808
Fair value reserve	10	**133**	523
Cash flow hedges		**158**	119
Accumulated losses		**(246,406)**	(85,389)
		(9,902)	126,466
Non-controlling interests		**223**	266
Net (deficit) total shareholders' equity		**(9,679)**	126,732
LIABILITIES			
Non- current liabilities			
Long-term loans	18	**95,428**	72,598
Long-term lease obligations	19	**336,683**	399,177
Other long-term liabilities	20	**413**	393
		432,524	472,168
Current liabilities			
Bank overdrafts	15	**-**	2,895
Current portion of long-term loans	18	**26,380**	22,865
Accrued expenses	21	**66,783**	74,738
Accounts payable and other current liabilities	22	**73,195**	57,545
Deferred revenues	23	**36,754**	50,271
Short-term lease obligations	19	**70,477**	53,278
		273,589	261,592
Total liabilities		**706,113**	733,760
TOTAL EQUITY AND LIABILITIES		**696,434**	860,492

The attached notes from 1 to 40 form part of these consolidated financial statements

Alia - The Royal Jordanian Airlines Company (Royal Jordanian)
Public Shareholding Company
Consolidated Income Statement
For the Year Ended 31 December 2020
(In Thousands of Jordanian Dinars)

	Notes	**2020**	2019
Revenues from contracts with customers	24	**212,623**	660,607
Cost of revenues	25	**(276,512)**	(547,188)
Gross (loss) profit		**(63,889)**	113,419
Administrative expenses	27	**(16,067)**	(20,922)
Selling and marketing expenses	28	**(23,929)**	(46,150)
Impairment loss on aircrafts	8	**(20,750)**	-
Other provisions	13,14	**(451)**	(855)
Net operating (loss) profit		**(125,086)**	45,492
Group's share of (losses) profits of associates	11	**(867)**	2,343
Other expenses, net	26	**(2,306)**	(2,025)
Gain on disposal of property and equipment		**-**	112
Provision for voluntary termination	30	**(5,173)**	-
Loss on foreign currency exchange	37	**(1,634)**	(1,772)
Finance costs	29	**(26,959)**	(33,087)
Interest income		**965**	1,918
(Loss) profit for the year before tax		**(161,060)**	12,981
Income tax expense	32	**-**	(2,598)
(Loss) profit for the year		**(161,060)**	10,383
Attributable to:			
Equity holders of the parent		**(161,017)**	10,393
Non-controlling interests		**(43)**	(10)
		(161,060)	10,383
Earnings per share			
Basic and diluted earnings per share attributable to equity holders of the parent	31	**JD (0.586)**	JD 0.038

The attached notes from 1 to 40 form part of these consolidated financial statements

Alia - The Royal Jordanian Airlines Company (Royal Jordanian)
Public Shareholding Company
Consolidated Statement of Comprehensive Income
For the Year Ended 31 December 2020
(In Thousands of Jordanian Dinars)

	Note	**2020**	2019
(Loss) profit for the year		**(161,060)**	10,383
Other comprehensive income			
Other comprehensive income items that will be reclassified to profit or loss in subsequent periods (net of tax):			
Net gain on cash flow hedges		**39**	119
Other comprehensive income items that will not be reclassified to profit or loss in subsequent periods (net of tax):			
Change in fair value reserve of financial assets at fair value through other comprehensive income	10	**(390)**	(3,248)
Total comprehensive income for the year		**(161,411)**	7,254
Attributable to:			
Equity holders of the parent		**(161,368)**	7,264
Non-controlling interests		**(43)**	(10)
		(161,411)	7,254

The attached notes from 1 to 40 form part of these consolidated financial statements

Alia - The Royal Jordanian Airlines Company (Royal Jordanian)
Public Shareholding Company
Consolidated Statement of Changes in Equity
For the Year Ended 31 December 2020
(In Thousands of Jordanian Dinars)

	Attributable to equity holders of the parent									
	Paid-in capital	Share discount	Payments in respect of capital increase	Statutory reserve	Fair value reserve	Cash flow hedges	Accumulated losses	Total	Non-controlling interests	Total equity
2020-										
Balance as of 1 January 2020	274,610	(78,205)	-	14,808	523	119	(85,389)	126,466	266	126,732
Loss for the year	-	-	-	-	-	-	(161,017)	(161,017)	(43)	(161,060)
Other comprehensive income items	-	-	-	-	(390)	39	-	(351)	-	(351)
Total comprehensive income	-	-	-	-	(390)	39	(161,017)	(161,368)	(43)	(161,411)
Payments in respect of capital increase (Note 17)	-	-	25,000	-	-	-	-	25,000	-	25,000
Balance as of 31 December 2020	**274,610**	**(78,205)**	**25,000**	**14,808**	**133**	**158**	**(246,406)**	**(9,902)**	**223**	**(9,679)**
2019-										
Balance as of 1 January 2019	246,405	(61,000)	8,000	13,509	3,771	-	(94,483)	116,202	276	116,478
Profit for the year	-	-	-	-	-	-	10,393	10,393	(10)	10,383
Other comprehensive income items	-	-	-	-	(3,248)	119	-	(3,129)	-	(3,129)
Total comprehensive income	-	-	-	-	(3,248)	119	10,393	7,264	(10)	7,254
Transfer to statutory reserve	-	-	-	1,299	-	-	(1,299)	-	-	-
Payments in respect of capital increase (Note 17)	-	-	3,000	-	-	-	-	3,000	-	3,000
Capital increase	28,205	(17,205)	(11,000)	-	-	-	-	-	-	-
Balance as of 31 December 2019	**274,610**	**(78,205)**	**-**	**14,808**	**523**	**119**	**(85,389)**	**126,466**	**266**	**126,732**

The attached notes from 1 to 40 form part of these consolidated financial statements

Alia - The Royal Jordanian Airlines Company (Royal Jordanian)
Public Shareholding Company
Consolidated Statement of Cash Flows
For the Year Ended 31 December 2020
(In Thousands of Jordanian Dinars)

	Notes	2020	2019
OPERATING ACTIVITIES			
(Loss) profit for the year before tax		**(161,060)**	12,981
Adjustments for:			
Depreciation of property and equipment	8	**23,997**	21,670
Depreciation of right-of-use assets	19	**68,734**	67,351
Share of losses (profits) of associates	11	**867**	(2,343)
Finance costs	29	**26,959**	33,087
Impairment loss on aircrafts	8	**20,750**	-
Provision for expected credit losses	14	**343**	632
Provision for slow moving inventory	13	**108**	223
Gain from sale of property and equipment		**-**	(112)
Provision for voluntary termination	30	**5,173**	-
Provision for end of service indemnity	20	**21**	37
Amortization of deferred revenue – Jordan Flight Catering Ltd.		**(300)**	(300)
Interest income		**(965)**	(1,918)
Working capital changes:			
Accounts receivable		**10,136**	(26,141)
Spare parts and supplies		**(909)**	(1,376)
Other current assets		**10,999**	509
Deferred revenues		**(13,217)**	3,858
Change in derivatives		**-**	130
Accounts payable and other current liabilities		**13,816**	5,421
Accrued expenses		**(8,356)**	4,795
End of service payments	20	**(1)**	(48)
Voluntary termination program payments		**(3,339)**	-
Net cash flows (used in) from operating activities		**(6,244)**	118,456
INVESTING ACTIVITIES			
Dividends received from associates	11	**1,138**	1,263
Purchase of property and equipment	8	**(11,798)**	(20,010)
Financial assets at fair value through OCI		**42**	22
Proceeds from sale of property and equipment		**-**	174
Interest income received		**1,198**	2,238
Change in restricted cash against lease contracts		**14,170**	(4,248)
Short-term deposits		**18,919**	1,542
Net cash flows from (used in) investing activities		**23,669**	(19,019)
FINANCING ACTIVITIES			
Repayment of term loans		**(9,189)**	(22,664)
Proceeds from loans		**35,000**	-
Capital increase		**-**	3,000
Payments in respect of capital increase	17	**25,000**	-
Payments of lease obligations	19	**(66,307)**	(87,185)
Interest paid		**(6,069)**	(7,498)
Net cash flows used in financing activities		**(21,565)**	(114,347)
Net decrease in cash and cash equivalents		**(4,140)**	(14,910)
Cash and cash equivalents at the beginning of the year		**52,283**	67,193
Cash and cash equivalents at the end of the year	15	**48,143**	52,283

The attached notes from 1 to 40 form part of these consolidated financial statements

(1) GENERAL

Alia - The Royal Jordanian Airlines Company (Royal Jordanian), the "Company", was registered as a Jordanian public shareholding Company on 5 February 2001. The Company's head office is located in Amman – Jordan.

The Company's objectives are to undertake scheduled air-transport activities from and to the Kingdom and to carry out the handling for aircrafts that land in and take off from the airports of the Kingdom.

The consolidated financial statements were authorized for issue by the Board of Directors in their meeting held on 18 April 2021.

(2) BASIS OF PREPARATION

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

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and financial assets at fair value through other comprehensive income that have been measured at fair value at the date of the consolidated financial statements.

The consolidated financial statements have been presented in Jordanian Dinars which is the functional currency of the Group. All values are rounded to the nearest thousands (JD 000) except when otherwise indicated.

(2-1) Fundamental Accounting Concepts

The consolidated financial statements have been prepared on the assumption of going concern. However, as disclosed in notes (3) and (38) to the consolidated financial statements which show the negative impact of COVID-19 pandemic, the Group's accumulated losses of JD 246.4 million as of 31 December 2020 represents 90% of the Company's capital. Also, the Company's current liabilities exceeded its current assets by an amount of JD 143.8 million as of 31 December 2020. These events or conditions indicate that a material uncertainty exists that may cast significant doubt about the entity's ability to continue as a going concern. According to Article (266) of the Jordanian Company's Law No. 22 for the year 1997 and its amendments, if the accumulated losses of the public shareholding company exceed 75% of its capital, the Company shall be liquidated unless the General Assembly of the Company issues a decision on its extraordinary meeting to increase the Company's capital or to deal with the Company's losses. The Prime Ministry of Jordan resolved to authorize the Ministry of Finance to proceed with further procedures to increase the Company's capital by JD 50 million over two phases, subject to a comprehensive turnaround and rightsizing plan across all key operational and financial pillars. An amount of JD 25 million was received during the fourth quarter of 2020 and the second phase will be received during 2021. Accordingly, the Company has recorded an amount of JD 25 million as payments in respect of capital increase as of 31 December 2020. Capital increase procedures were not completed up to the date of the consolidated financial statements. The Company received a comfort letter from the Ministry of Finance (the Jordanian Government's representative), stating that the Government is in favor of continuing to support the Company's operations in the future. Also, the Company's management is in the process of performing the restructuring business plan that supports the Company's business continuity and its ability to recover its assets and generate future cash flows to settle its liabilities.

(3) Coronavirus (Covid-19) Outbreak and Its Impact on Royal Jordanian Airlines

On 11 March 2020, the World Health Organization made an assessment that the outbreak of a coronavirus (COVID-19) can be characterized as a pandemic. As a result, businesses have been affected amongst others with a suspension of travel and closure of boundaries with other countries. The Covid-19 pandemic along with the measures necessary to contain the virus has triggered an economic downturn and caused an unprecedented economic crisis. As a result of these indicators of potential impairment on the Company's assets, management is updating the business plan and the impact of the pandemic on RJ's operations, business and the ability to recover the Group's assets in addition to any potential impairment.

The Group has prepared an impairment study for its fleet. Accordingly, an impairment loss of JD 20,750 was recorded in the consolidated income statement for the year ended 31 December 2020 (Note 8).

The Company has initiated a reshape project to adapt to the new operational and financial challenges to ensure that the Company can sustain its operations in the coming future.

The Company's operations, liquidity and cash flows impact as a result of the outbreak is summarized as follows:

- Reference to the Prime Ministry of Jordan resolution to suspend all incoming and outgoing passenger flights into the country starting from 17 March 2020, all Company's scheduled flights were suspended except for cargo flights. This has significantly affected the Company's gross revenues to unprecedented levels. On 2 September 2020, the government has announced that Jordan will resume regular commercial flights on 8 September 2020, with strict health measures to be implemented which resulted in very low operation levels.

- Cancellation of scheduled flights resulted in tickets refunds of around JD 46.5 million up to the date of the consolidated financial statements.

- As part of the Company's action plan to manage cashflows, management entered into discussions with the aircrafts' lessors and lenders to reschedule the leases and loan payments during the lockdown period and onward.

- Negotiations were initiated with the Company's major suppliers to defer the payments and reduce the costs were possible.

- The Company has signed an amendment letter to the syndication loan agreement, in which loan installments for the period from March 2020 to September 2020 were rescheduled and allocated to the installments after September 2020 on a proportional basis.

- During 2019, the Company has obtained a credit facility granted from Arab Bank with a ceiling of JD 20 million and an annual interest rate of 5.625%. On 18 March 2020, the Company signed an amendment agreement with Arab Bank to increase the ceiling of the credit facility to become JD 40 Million with the same existing terms and conditions. The company did not utilize the credit facility as of 31 December 2020. (31 December 2019: the utilized balance amounted to JD 2,895).

- The board of directors resolved in their meeting held on 27 April 2020 to approve a new loan facility of JD 50 million to finance the Company's cash flows and to meet un-avoidable cash obligations when becoming due during the lockdown period. The Company has utilized an amount of JD 35 Million of this facility as of 31 December 2020 (Note 18).

- On 25 October 2020, the Prime Ministry of Jordan resolved in its resolution number (126) to authorize the Ministry of Finance to proceed with further procedures to increase the Company's capital by JD 50 million over two phases, subject to a comprehensive turnaround and rightsizing plan across all key operational and financial pillars. An amount of JD 25 million was received during the fourth quarter of 2020 and the second phase will be received during 2021. Accordingly, the Company has recorded an amount of JD 25 million as payments in respect of capital increase as of 31 December 2020 (Note 17). Capital increase procedures were not completed up to the date of the consolidated financial statements.

- The Company implemented Defense Order No. (1) - Suspension of old age and early retirement insurance for March, April, May and December 2020. The social security percentage paid by the Company became 4.25% instead of 14.25%. The implementation of the defense order will be extended until the end of May 2021.

- The Company has implemented Defense Order No. (6) and all amendments issued by the Prime Minister effective from March until the end of November 2020. Employees' salaries were paid according to their assignments' category (On-site, from home, not assigned) and relevant salary percentage reduction was applied in compliance with the defense order regulations.

- The Company has implemented Defense Order No. (9) "Tadamon (1) - (Solidarity) Program " related to "unassigned employees" during the months of April and May 2020. The Social Security Corporation contributed 50% of employee's salary with a ceiling of JD 500 and a minimum of JD 165 per month. The Company paid 20% of employee's salary with a ceiling of JD 250.

- The Company has implemented Defense Order No. (14) "Tamkeen Iktisadi (1) (Economic empowerment) Program" by decreasing the Social Security percentage paid by the Company for the old age and early retirement insurance for the months from June until November 2020. The Social Security percentage paid by the Company became 9.25% instead of 14.25%.

(In Thousands of Jordanian Dinars, except for amounts in foreign currencies)

- The Company Implemented Defense Order No. (24) "Estidama Program" effective from December 2020 and will be extended until the end of May 2021. Employees' salaries are reduced by 25%. The Social Security Corporation contributed 37.5% of employees' monthly salary with a ceiling of JD 500.

The Company's management is going through an ongoing discussion with the stakeholders and the Government to obtain the needed support. Accordingly, a committee has been formed comprised of representatives from the Ministry of Finance, Ministry of Transport, Civil Aviation Regulatory Commission "CARC", Central Bank of Jordan and Social Security Fund to go through RJ's proposed required support in line with IATA recommendations for governments around the globe to facilitate relief measures by a combination of programs that can provide both immediate and medium to long-term assistance to the airline industry and its employees in the form of direct financial support, loans, loan guarantees and tax relieves.

(4) BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of Alia - The Royal Jordanian Airlines Company (the "Company") and the following subsidiaries (collectively referred to as the "Group") as at 31 December 2020:

	Ownership Interest	Country
Royal Wings Company	100%	Jordan
Royal Tours for Travel and Tourism Company	80%	Jordan
Al Mashriq for Aviation Services	100%	Jordan

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

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

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and 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(s) 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.

Profit or loss and each component of other comprehensive income (OCI) 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 in 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 derecognizes the related assets (including goodwill), liabilities, non- controlling interest and other components of equity, while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

Shareholders who have a significant influence over the Group

The Government of the Hashemite Kingdom of Jordan presented by Government Investments Management Company, Mint Trading Middle East Ltd. and Social Security Corporation own 82.03%, 4.99% and 5.33%, respectively from the Company's shares as at 31 December 2020 (31 December 2019: 82.03%, 4.99% and 5.33% respectively).

(5) CHANGES IN ACCOUNTING POLICIES

The accounting policies used in the preparation of the consolidated financial statements are consistent with those used in the preparation of the consolidated financial statements for the year ended 31 December 2019 except for the adoption of new amendments effective as of 1 January 2020 shown below:

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs.

These amendments had no impact on the consolidated financial statements of the Group, but may impact future periods should the Group enter into any business combinations.

Amendments to IAS 1 and IAS 8: Definition of "Material"

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.

These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Group.

Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform
Interest Rate Benchmark Reform Amendments to IFRS 9 and IFRS 7 includes a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

These amendments have no impact on the consolidated financial statements of the Group as it does not have any interest rate hedge relationships.

Amendments to IFRS 16 Covid-19 Related Rent Concessions
On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. This relates to any reduction in lease payments which are originally due on or before 30 June 2021. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification.

The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted.

The Company has applied the practical expedient to all rent concessions that met the conditions for the practical expedient as disclosed in Note 19.

(6) USE OF ESTIMATES

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities, the accompanying disclosure, and the disclosure of contingent liabilities. In particular, considerable judgment by Group's management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty and actual results may differ resulting in future changes in such provisions.

Significant estimates are as follows:

Useful lives of property and equipment

The Group's management determines the estimated useful lives of its property and equipment for calculating depreciation based on expected usage of the asset or physical wear and tear, management reviews the residual value and useful lives annually and future depreciation charge would be adjusted prospectively where the management believes the useful lives differ from previous estimates.

Provision for expected credit losses

The Group uses a provision matrix to calculate the expected credit loss (ECL) for trade receivables. The provision rates are based on days past due for groupings of various customers segments that have similar loss patterns.

The provision matrix is initially based on the Groups historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information with regard to COVID-19. For instance, if forecast economic conditions (i.e. gross domestic product) are expected to deteriorate over the next year which can lead to an increase number of defaults, the historical default rates are adjusted. At every reporting date, the historical Observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Groups' historical credit loss experience and forecast of economic conditions may also not be representative of the customers actual default in the future.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Provision for aircraft return conditions

The measurement of the provision for aircraft return conditions includes assumptions relating to expected costs, escalation rates, discount rates commensurate with the expected obligation maturity and long-term maintenance schedules. An estimate is therefore made at each reporting date to ensure that the provision corresponds to the present value of the expected costs to be borne by the Company. A significant level of judgement is exercised by management given the long-term nature and diversity of assumptions that go into the determination of the provision. A reasonably possible change in any single assumption will not result in a material change to the provision.

Revenue recognition – Frequent Flyer points for customer loyalty program

The Group estimates the fair value of points awarded under the Frequent Flyer Program by applying statistical techniques. Inputs to the models include making assumptions about expected redemption rates and customer preferences. Such estimates are subject to varying degrees of uncertainty. As at 31 December 2020, the estimated liability for unredeemed points was approximately JD 7,638 (2019: JD 6,688).

Significant Judgments and estimates related to the application of IFRS 16

The application of IFRS 16 requires the Group to make judgments and estimates that affect the measurement of right – of - use assets and liabilities. In determining the lease term, the group consider all facts and circumstances that create an economic incentive to exercise renewal options. Assessing whether a contract includes a lease also requires judgment. Estimates are required to determine the appropriate discount rate used to measure lease liability.

(In Thousands of Jordanian Dinars, except for amounts in foreign currencies)

(7) SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted are as follows:

Business combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree.

For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree’s identifiable net assets. Acquisition costs incurred are expensed and included in the consolidated statement of income.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Impairment of Goodwill

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired.

Impairments is determined for goodwill by assessing the recoverable amount of each cash generating unit (or group of cash generating units) to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than their carrying amount an impairment loss is recognized.

Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and any impairment in value. Land is not depreciated. Property and equipment are depreciated to their estimated residual values on a straight-line basis over their estimated useful lives. The depreciation rates and periods used are summarized as follows:

	Depreciation Rate (%)
Owned passenger and cargo aircrafts, aircraft engines and aircraft components	5 - 5.5
Machinery and equipment	10-15
Computers	25
Furniture and fixtures	10
Vehicles	15-20
Buildings	2.5 - 10

	Period
Capitalized maintenance	24 – 120 months

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets are written down to their recoverable amounts. The recoverable amount is the higher of asset's fair value less cost to sell or value in use. Impairment losses are recognized in the consolidated income statement.

Useful lives and depreciation method are reviewed on regular basis to ensure that the depreciation method and the period of depreciation are selected based on the economic benefits expected from assets.

Right-of-use assets

The Group recognizes 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 obligations.

The cost of right-of-use assets includes the amount of lease obligations recognized, 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 recognized right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. Right-of-use assets are subject to impairment.

Lease obligations

At the commencement date of the lease, the Group recognizes lease obligations 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 recognized as expense in the period on 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 obligations 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 some of 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 (less than 5,000 US dollars annually). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

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

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

The Group has the option, under some of its leases to lease the assets for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew.

That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

The Group included the renewal period as part of the lease term for leases of property and equipment due to the significance of these assets to its operations. These leases have a short non-cancellable period and there will be a significant negative effect on production if a replacement is not readily available.

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income are recorded at fair value plus acquisition costs at the date of acquisition and subsequently measured at fair value. Changes in fair value are reported as a separate component in the consolidated statement of other comprehensive income and in the consolidated statement of changes in equity, including the change in fair value resulting from conversion differences of non-cash items of assets at foreign currencies. In case of sale of such assets or part of it, the gain or loss is recorded in the consolidated statement of other comprehensive income and in the consolidated statement of changes in equity, and the valuation reserve balance for sold assets will be transferred directly to retained earnings. These assets are not subject to impairment testing and dividends received are recognized in the consolidated income statement when declared.

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. The Group’s investments in its associates are accounted for using the equity method.

Under the equity method, the investment in an associate initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associates since the acquisition date. Goodwill relating to the associates is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The consolidated income statement reflects the Group's share of the results of operations of the associates. Any change in other comprehensive income of those investees is presented as part of the Group's other comprehensive income (OCI). In addition, when there has been a change recognized directly in the equity of the associates, the Group recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associates are eliminated to the extent of the interest in the associates.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the consolidated income statement within operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associates are prepared for the same reporting period and using the same accounting policies as the Group.

Spare parts and other supplies

Spare parts and other supplies are valued at the lower of cost, using the weighted average method, or net realizable value.

Accounts receivable

Accounts receivables are stated at original invoice amount less any provision for expected credit losses. For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes 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.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank balances and short-term deposits with an original maturity of three months or less after deducting bank overdraft balances.

Impairment and uncollectibility of financial assets

The adoption of IFRS (9) has fundamentally changed the Company's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

IFRS (9) requires the Company to record an allowance for ECL for all debt instruments measured at amortized cost.

For all debt instruments, the Group has applied the standard's simplified approach and has calculated ECL based on lifetime expected credit losses. The Company has established a provision matrix that is based on the Company's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Fair value measurement

Fair values of financial instruments are disclosed in Notes 35 and 36.

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 by 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, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

At each reporting date, the management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group’s accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group’s management determines the policies and procedures for both recurring fair value measurement, such as unquoted available for sales financial assets, and for non-recurring measurement, such as assets held for distribution in discontinued operation.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

End of service indemnity provision

The Group provides end of service indemnity benefits to its local employees in certain outstations. Provision represents amounts payable to local employees in outstations based on the rules and regulations of those countries.

Accounts payable and accruals

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

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

Provision for aircraft return conditions

Provision for aircraft return conditions represents the estimate of the cost to meet the contractual lease end obligations on certain aircraft and engines held under lease contracts. The present value of the expected cost is recognized over the lease term considering the existing fleet plan and long-term maintenance schedules.

Loans

All loans are initially recognized at fair value of the consideration received less directly attributable transaction costs. After initial recognition, loans are subsequently measured at amortized cost using the effective interest method.

Interests on loans are recognized in the consolidated income statement in the period they occur including the grace period, if any.

Revenue recognition

Revenue is recognized under IFRS (15) five step model approach which include determining the contract, price, performance obligation and revenue recognition based on satisfaction of performance obligation.

Passenger and cargo revenues are recognized when the transportation is provided. Passenger tickets and airway bills sales are reflected in the consolidated statement of financial position as deferred revenue until recognized as revenue.

Other revenues are recognized at the time the service is provided.

The Company operates a frequent flyer program, (Royal club), which allows frequent travelers to accumulate mileage credits which entitle them to a choice of upgrade to business Class or free travel. A portion of the fair value of the consideration received is allocated to the award credits and deferred, this is then recognized as revenue over the period that the award credits are redeemed.

Group’s revenue falls under IFRS (15) “revenue from contracts with customers”. The Group provide services to its customers through passenger tickets. Revenue are recognized after deduction of taxes collected on behalf of Government.

Maintenance and repair costs

Routine maintenance and repair costs for leased and owned aircraft and flight equipment are charged to the consolidated income statement as incurred.

Aircraft, engines, and components heavy maintenance expenses are capitalized on property and equipment and are being amortized over the period until the next scheduled heavy maintenance is due or upon the redelivery of the aircraft to the lessor which is shorter.

Finance costs

Finance costs are recognized as an expense when incurred. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized.

Income tax

Tax expense comprises current tax and deferred taxes.

Current tax is based on taxable profits, which may differ from accounting profits published in the consolidated financial statements. Accounting profits may include non-taxable profits or expenses which may not be tax deductible in the current but in subsequent financial years.

Current income tax is calculated in accordance with the Income Tax law applicable in the Hashemite Kingdom of Jordan.

Deferred income tax is provided using the liability method on temporary differences at the consolidated financial statements date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax is measured at the tax rates that are expected to apply to the year when the tax liability is settled, or the tax asset is realized.

The balance of deferred income tax assets is reviewed at each consolidated financial statement date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Foreign currencies

1) Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency at the spot rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency at rates of exchange at the reporting date. All foreign exchange differences arising on non–trading activities are taken to other operating income/expense in the consolidated income statement.

Non–monetary items that are measured at historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition.

2) Group companies

On consolidation, the assets and liabilities in foreign operations are translated into Jordanian Dinar at the spot rate of exchange prevailing at the reporting date and their income statements are translated at spot exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognized in OCI.

(In Thousands of Jordanian Dinars, except for amounts in foreign currencies)

(8) PROPERTY AND EQUIPMENT

2020	*Aircrafts*	*Spare engines*	*Capitalized maintenance on aircrafts' engines, and components*	*Aircrafts' main Components*	*Machinery and Equipment*	*Computers*	*Furniture and Fixtures*	*Vehicles*	*Land and buildings*	*Total*
Cost:										
Balance as of 1 January 2020	154,161	1,091	46,905	49,972	72,612	20,043	9,389	10,382	43,922	408,477
Additions	1,174	-	8,423	415	831	314	37	224	380	11,798
Disposals	-	-	(8,888)	-	(14)	(2)	-	-	-	(8,904)
Balance as of 31 December 2020	155,335	1,091	46,440	50,387	73,429	20,355	9,426	10,606	44,302	411,371
Accumulated depreciation:										
Balance as of 1 January 2020	115,577	928	28,305	46,091	60,405	17,696	8,464	9,691	14,475	301,632
Depreciation expense for the year	4,684	-	12,594	427	3,174	737	273	219	1,889	23,997
Impairment loss *	20,750	-	-	-	-	-	-	-	-	20,750
Disposals	-	-	(8,888)	-	(14)	(2)	-	-	-	(8,904)
Balance as of 31 December 2020	141,011	928	32,011	46,518	63,565	18,431	8,737	9,910	16,364	337,475
Net book value as of 31 December 2020	**14,324**	**163**	**14,429**	**3,869**	**9,864**	**1,924**	**689**	**696**	**27,938**	**73,896**

* The Group calculated and recorded an impairment loss of JD 20,750. The recoverable amount of the aircrafts was based on its fair value less costs of disposal (FVLCD).

(In Thousands of Jordanian Dinars, except for amounts in foreign currencies)

2019	*Aircrafts under leases contracts*	*Aircrafts*	*Spare engines*	*Capitalized maintenance on aircrafts' engines, and components*	*Aircrafts' main Components*	*Machinery and Equipment*	*Computers*	*Furniture and Fixtures*	*Vehicles*	*Land and buildings*	*Total*
Cost:											
Balance as of 1 January 2019	144,338	123,750	38,869	54,463	48,139	71,268	19,128	8,625	10,708	43,065	562,353
Additions	-	-	-	14,163	1,833	1,853	943	118	243	857	20,010
Disposals	-	-	-	(27,547)	-	(979)	(28)	(112)	(796)	-	(29,462)
Transfers from assets classified as held for sale (Note 16)	-	30,411	-	5,826	-	470	-	758	227	-	37,692
Transfers to right-of-use assets (Note 19)	(144,338)	-	(37,778)	-	-	-	-	-	-	-	(182,116)
Balance as of 31 December 2019	-	154,161	1,091	46,905	49,972	72,612	20,043	9,389	10,382	43,922	408,477
Accumulated depreciation:											
Balance as of 1 January 2019	14,049	84,446	3,940	43,029	45,447	57,371	17,048	7,585	9,952	12,634	295,501
Depreciation expense for the year	-	4,280	309	9,800	644	3,548	676	265	307	1,841	21,670
Disposals	-	-	-	(27,511)	-	(976)	(28)	(90)	(795)	-	(29,400)
Transfers from assets classified as held for sale (Note 16)	-	26,851	-	2,987	-	462	-	704	227	-	31,231
Transfers to right-of-use assets (Note 19)	(14,049)	-	(3,321)	-	-	-	-	-	-	-	(17,370)
Balance as of 31 December 2019	-	115,577	928	28,305	46,091	60,405	17,696	8,464	9,691	14,475	301,632
Net book value as of 31 December 2019	**-**	**38,584**	**163**	**18,600**	**3,881**	**12,207**	**2,347**	**925**	**691**	**29,447**	**106,845**

(In Thousands of Jordanian Dinars, except for amounts in foreign currencies)

(9) ADVANCES ON PURCHASE AND MODIFICATION OF AIRCRAFTS

	2020	2019
Advances for the purchase of Boeing 787 aircrafts	4,813	4,813

(10) FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

This item includes investments in equity shares of non-listed companies. The Group holds non-controlling interests in these companies. These investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

	2020	2019
Royal Jordanian Air Academy, net	1,748	2,138
SITA Investment Certificates	495	536
Others	22	23
	2,265	2,697

Movement on fair value reserve was as follows:

	2020	2019
Balance as at 1 January	523	3,771
Loss during the year	(390)	(3,248)
Balance as at 31 December	133	523

(11) INVESTMENTS IN ASSOCIATES

	Country of incorporation	Ownership		Balance	
		2020	2019	**2020**	2019
Jordan Flight Catering Company Ltd.	Jordan	30%	30%	**3,706**	5,076
Jordan Aircraft Maintenance Company (JORAMCO)	Jordan	20%	20%	**10,076**	10,046
Jordan Aircraft Training and Simulation Company (JATS)	Jordan	20%	20%	**2,973**	3,638
				16,755	18,760

Movement on investments in associates was as follows:

	2020	2019
Beginning balance	**18,760**	17,680
Group’s share of (losses) profits for the year	**(867)**	2,343
Dividends received	**(1,138)**	(1,263)
Ending balance	**16,755**	18,760

(In Thousands of Jordanian Dinars, except for amounts in foreign currencies)

The following table represents the summary of the financial statements for the Groups' investments in associates:

	Jordan Flight Catering Company Ltd.		Jordan Aircraft Maintenance Company (JORAMCO)		Jordan Aircraft Training & Simulation Company (JATS)		Total	
Statement of financial position	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
Current assets	**2,993**	6,306	**40,506**	28,379	**1,685**	1,780	**45,184**	36,465
Non-current assets	**4,517**	5,112	**35,637**	23,986	**14,212**	16,166	**54,366**	45,264
Current liabilities	**(3,035)**	(4,212)	**(25,663)**	(16,986)	**(1,500)**	(1,303)	**(30,198)**	(22,501)
Non-current liabilities	**(3,836)**	(3,525)	**(18,639)**	(12,922)	**(4,930)**	(4,210)	**(27,405)**	(20,657)
Net assets	**639**	3,681	**31,841**	22,457	**9,467**	12,433	**41,947**	38,571
Group's ownerships percentage	**30%**	30%	**20%**	20%	**20%**	20%		
Investment in associates	**192**	1,104	**6,368**	4,491	**1,893**	2,487	**8,453**	8,082

	Jordan Flight Catering Company Ltd.		Jordan Aircraft Maintenance Company (JORAMCO)		Jordan Aircraft Training & Simulation Company (JATS)		Total	
Statement of comprehensive income	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
Revenues	**4,396**	19,000	**45,252**	58,017	**1,607**	3,886	**51,255**	80,903
Cost of revenues	**(5,685)**	(13,993)	**(40,641)**	(35,361)	**(2,927)**	(2,416)	**(49,253)**	(51,770)
Other income and expenses	**(820)**	(852)	**(4,461)**	(16,896)	-	(1,650)	**(5,281)**	(19,398)
(Loss) profit before tax	**(2,109)**	4,155	**150**	5,760	**(1,320)**	(180)	**(3,279)**	9,735
Income tax	-	(65)	-	-	-	-	-	(65)
(Loss) profit for the year	**(2,109)**	4,090	**150**	5,760	**(1,320)**	(180)	**(3,279)**	9,670
Group's Share of (losses) profits for the year	**(633)**	1,227	**30**	1,152	**(264)**	(36)	**(867)**	2,343

As of 31 December 2020, the associate companies have contingent liabilities of JD 578 (2019: JD 1,268) in respect of guarantees and letter of credits.

(In Thousands of Jordanian Dinars, except for amounts in foreign currencies)

(12) OTHER CURRENT ASSETS

	2020	2019
Prepaid expenses	**2,584**	2,123
Receivable from lessors – maintenance claims	**2,115**	8,670
Advances to suppliers	**2,820**	4,182
Refundable deposits	**1,079**	1,032
Employees' receivables	**-**	551
Derivatives*	**435**	316
Others	**1,465**	4,284
	10,498	21,158

* The Group signed aircraft fuel purchase options contracts to manage fuel price fluctuation risk and for the purpose of limiting the risk of fluctuations in fuel prices.

(13) SPARE PARTS AND SUPPLIES, NET

	2020	2019
Spare parts and supplies	**18,551**	17,642
Provision for slow moving inventory	**(10,341)**	(10,233)
	8,210	7,409

Movement on provision for slow moving inventory was as follows:

	2020	2019
Beginning balance	**10,233**	10,010
Provision for the year	**108**	223
Ending balance	**10,341**	10,233

(14) ACCOUNTS RECEIVABLE, NET

	2020	2019
Accounts receivable*	**74,396**	84,532
Provision for expected credit losses	**(16,864)**	(16,521)
	57,532	68,011

* Included in accounts receivable fuel discount amounted to JD 40,690 (2019: 38,709).

(In Thousands of Jordanian Dinars, except for amounts in foreign currencies)

Movement on provision for expected credit losses was as follows:

	2020	2019
Beginning balance	**16,521**	13,291
Provision for the year	**343**	632
Transfers from assets held for sale (Note 16)	**-**	2,598
Ending balance	**16,864**	16,521

As at 31 December, the aging of unimpaired trade receivables was as follows:

		Past due but not impaired					
	Neither past due nor impaired	1- 30 days	31 – 60 days	61 – 90 days	91 – 180 days	181-360 days *	Total
2020	**2,163**	**3,045**	**3,071**	**2,193**	**2,349**	**44,711**	**57,532**
2019	10,997	9,938	3,010	984	3,318	39,764	68,011

* Included in this category an amount of JD 40,690 which represents fuel discount. (2019: 38,709).

Based on the Group's management estimates, the unimpaired receivables are expected, on the basis of past experience, to be fully recoverable. The Group obtains bank guarantees as collateral from the majority of its general sales agents and cargo receivables. The Group does not obtain collateral over other receivables; therefore, they are unsecured.

(15) CASH AND BANK BALANCES

	2020	2019
Cash and bank balances	**39,948**	29,239
Short-term deposits*	**3,598**	6,095
Cash in transit **	**4,597**	19,844
Cash and cash equivalents	**48,143**	55,178
Short-term deposits mature after 3 months ***	**5,365**	24,284
Cash and bank balances	**53,508**	79,462

* This item represents deposits in Jordanian Dinars in Jordanian Banks as of 31 December 2020 with an interest rate ranging between 2.75% - 3% (2019: 4.275% - 5%) and are due within three months.

** This item includes cash received on tickets sales and airwaybills sales through IATA accredited agents during December that were deposited in the Group's bank accounts during January of next year.

*** This item represents deposit in Banks in Jordanian Dinar (JD 4,000) with an average interest rate of 3.25% and Sudanese Pound (238,465 thousand Sudanese Pound which is equivalent to JD 340), in addition to Libyan Dinar and Syrian Lira equivalent to JD 215 and a deposit of 150,000 Thousand Algerian Dinar equivalent to JD 810 as of 31 December 2020 (2019: JD 21,780 Jordanian Dinar and 214,804 Thousand Sudanese Pounds which is equivalent to 1,324 in addition to Libyan Dinar and Syrian Lira equivalent to JD 1,180) with an average interest rate ranging between 1.14% - 3.25% (2019: 4.9% - 5.5%) and are due after more than three months (2019: more than three months).

(In Thousands of Jordanian Dinars, except for amounts in foreign currencies)

For the purposes of the consolidated statement of cash flows, the following represents the details of the cash and cash equivalents:

	2020	2019
Cash and cash equivalents	**48,143**	55,178
Less: Banks overdrafts****	**-**	(2,895)
	48,143	52,283

**** During 2019, the Company obtained an overdraft facility from Arab Bank with a ceiling of JD 20 Million at an annual interest rate of 6%. On 18 March 2020, the Company signed an amendment agreement with Arab Bank to increase the ceiling of the credit facility to become JD 40 Million with the same existing terms and conditions. The Company did not utilize any balance of the facility as at 31 December 2020. (31 December 2019: the utilized balance amounted to JD 2,895).

(16) DISCONTINUED OPERATIONS

The Company's Board of Directors resolved on 26 September 2018 to sell or liquidate Royal Wings Company (wholly owned subsidiary). Accordingly, Royal Wings Company was classified as assets held for sale in the consolidated statement of financial position as at 31 December 2018 in accordance with IFRS 5.

Royal Wings Company was classified as at 31 December 2018 as assets held for sale and discontinued operations for the year 2018.

	2018
Revenues	10,216
Cost of revenues	(11,824)
Gross loss	(1,608)
Administrative expenses	(2,181)
Other expenses, net	(62)
Loss before income tax from discontinued operations	(3,851)
Income tax	-
Loss from discontinued operations	(3,851)

Major classes of Royal Wings Company's assets and liabilities classified as held for sale are as follows:

	2018
ASSETS	
Property and equipment	6,461
Accounts receivable and other current assets	1,163
Cash and bank balances (Note 15)	1,007
Assets classified as held for sale	8,631
LIABILITIES	
Accounts payable and other credit balances	1,389
Accrued expenses	2,314
Liabilities associated with assets classified as held for sale	3,703
Net assets classified as held for sale	4,928

(In Thousands of Jordanian Dinars, except for amounts in foreign currencies)

On 16 June 2019, the Company's board of directors resolved to disregard the previous decision to sell or liquidate Royal Wings Company. Accordingly, the results of operations of the subsidiary previously presented in discontinued operation were reclassified and included in income from operation for all periods presented.

(17) SHAREHOLDERS' EQUITY

- Paid-in capital

	2020	2019
Authorized capital (Par value of one Jordanian Dinar per share)	**274,610**	274,610
Paid in capital	**274,610**	274,610

- Share discount

Share discount amounted to JD 78.2 million as at 31 December 2020 and 31 December 2019. The accumulated balance in this account represents the difference between the issuing price and the par value of the shares issued.

- Payments in respect of capital increase

The General Assembly approved in its extraordinary meeting held on 2 May 2015 to restructure the Company's capital by reducing it through writing off part of the Company's accumulated losses and increasing the Company's capital by 200 million shares with a par value of JD 1 per share. Capital increase procedures were completed for the first tranche of JD 100 million of the Company's capital increase during 2016.

The Prime Ministry resolved in its meeting held on 6 September 2017 to approve government's subscriptions presented by Investment Management Company in 50% of the second tranche of the suggested capital increase of JD 100 million (JD 50 million). The government shall subscribe in 100% of the capital increase if the major shareholders do not subscribe in the remaining 50%. Subscription was completed through capitalization of JD 25 million of the amounts due to the Investment Management Company and through cash payments of the remaining amount. Subscription was calculated using the share price in Amman Stock Exchange "ASE" on the date of the resolution (JD 0.390). Accordingly, an amount of JD 25 million was reclassified from long term liabilities to advance payments over capital increase in the consolidated financial statements as at 31 December 2017.

Part of the second tranche was subscribed during February 2019. Accordingly, paid-in capital amounted to JD 246,405, resulting in a share discount of JD 61 million as at 31 December 2019. The General Assembly resolved in its extra-ordinary meeting held on 26 April 2019 to increase the Company's authorized capital by 28,205,128 shares to become 274,610,470 shares as a completion of the first half of the second tranche of the Company's capital increase process amounted to JD 50 million. Subscription was completed during January 2019, whereas, the Company's authorized and paid in capital became JD 274,610 along with a share discount of JD 78,205 as at 31 December 2020 and 2019.

On 25 October 2020, the Prime Ministry of Jordan resolved in its resolution number (126) to authorize the Ministry of Finance to proceed with further procedures to increase the Company's capital by JD 50 million over two phases, subject to a comprehensive turnaround and rightsizing plan across all key operational and financial pillars . An amount of JD 25 million was received during the fourth quarter of 2020 and the second phase will be received during 2021. Accordingly, the Company has recorded an amount of JD 25 million as payments in respect of capital increase as of 31 December 2020. Capital increase procedures were not completed up to the date of the consolidated financial statements.

- Statutory Reserve

As required by Jordanian Company Law, 10% of the profit before income tax is transferred to statutory reserve. This reserve is not available for distribution to the shareholders.

(In Thousands of Jordanian Dinars, except for amounts in foreign currencies)

(18) BANK LOANS

	2020		2019	
	Loan's Installments		Loan's Installments	
	Short term	**Long term**	Short term	Long term
Syndicated loan*	**26,915**	**61,542**	23,400	74,246
Capital Bank loan**	**-**	**35,000**	-	-
Less: directly attributable transaction costs	**(535)**	**(1,114)**	(535)	(1,648)
	26,380	**95,428**	22,865	72,598

* On 20 December 2015, the Company signed a syndicated loan agreement amounted to USD 275 million which is equivalent to JD 195 million, the loan bears annual interest rate of one-month LIBOR plus 3%. The loan is repayable in 49 installments. The first installment amounting to JD 3 million fell due on 20 January 2017 and the last installment will fall due on 20 December 2021.

On 5 February 2020, the Company signed a loan restructuring agreement for the syndicated loan. The loan installments were extended until 2024. The first installment amounting to JD 1.9 million fell due on 5 March 2020 with an annual interest rate of one-month LIBOR plus 2.65% (minimum 4.5%).

As part of the Company's action plan to manage its cashflows during the current outbreak, the Company signed an amendment letter to the loan agreement, in which the loan installments for the period from March 2020 to September 2020 were rescheduled and allocated to the remaining installments after September 2020 on a proportional basis.

The loan agreement contains loan covenants which require the Company to meet certain financial ratios. As per the amendment letter signed during April 2020, the Company is not required to comply with these covenants during the period from 1 January 2020 to 31 March 2021. During March 2021, the Company has amended the agreement whereas the Company is not required to meet those financial ratios until the end of 31 December 2021.

According to the loan agreement, the Company is obliged to transfer the proceeds from its sales from travel agents in 22 stations that are collected through IATA BSP (Billing and Settlement Plan) to the Company's account at Al-Mashreq Bank as a collateral.

** On 18 May 2020, the Company signed a loan agreement with Capital Bank that amounted to JD 50 million bearing an annual interest rate of 1%. The Company has utilized an amount of JD 35 million of this facility as of 31 December 2020. The loan is repayable through one payment on 18 September 2023. Interest is payable on a quarterly basis.

Principal installments payable during the year 2021 and after are as follows:

Year	JD
2021	26,914
2022	30,138
2023	61,893
2024	4,512
	123,457

(In Thousands of Jordanian Dinars, except for amounts in foreign currencies)

(19) Leases

The Group has lease contracts for various items including aircrafts, aircraft's engines and offices.

Lease terms are as follows:

	Years
Aircrafts	3-7
Aircrafts' engines	8
Offices rent	2-13

There are several lease contracts that include extension and termination options and variable lease payments.

The Group also has certain leases of offices and other assets with lease terms of 12 months or less and leases for assets of low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

Set out below are the carrying amounts of right-of-use assets and lease obligations recognized and the movements during the years 2020 and 2019:

	Right-of-use assets				
	Aircrafts	**Aircraft's engines**	**Offices**	**Total**	**Lease obligations***
At 1 January 2020	436,632	39,768	25,486	501,886	452,455
Terminated contracts	-	-	(13)	(13)	(13)
Lease-term modifications	537	-	-	537	537
Covid-19 concession arrangements (Note 5)	-	-	-	-	(464)
Depreciation	(62,497)	(2,601)	(3,636)	(68,734)	-
Finance costs (Note 29)	-	-	-	-	20,488
Payments	-	-	-	-	(65,843)
At 31 December 2020	374,672	37,167	21,837	433,676	407,160
**At 1 January 2019 ** **	493,235	42,369	29,122	564,726	509,913
Additions	4,511	-	-	4,511	4,511
Depreciation	(61,114)	(2,601)	(3,636)	(67,351)	-
Finance costs (Note 29)	-	-	-	-	25,216
Payments	-	-	-	-	(87,185)
At 31 December 2019	436,632	39,768	25,486	501,886	452,455

* Lease obligations details are as follows:

31 December 2020			31 December 2019		
Short term	**Long term**	**Total**	Short term	Long term	Total
70,477	**336,683**	**407,160**	53,278	399,177	452,455

** On 1 January 2019, the Company has transferred an amount of JD 164,746 from the property and equipment to the right-of-use assets (Note 8).

The Company has mortgaged two Boeing 787 against the lease agreements of those aircrafts.

(In Thousands of Jordanian Dinars, except for amounts in foreign currencies)

(20) OTHER LONG-TERM LIABILITIES

	2020	2019
Provision for end of service indemnity	**413**	393

Movement on provision for employee's end of service indemnity was as follows:

	2020	2019
Beginning balance	**393**	404
Provision for the year	**21**	37
Payments during the year	**(1)**	(48)
Ending balance	**413**	393

(21) ACCRUED EXPENSES

	2020	2019
Accrual for flying operations expenses	**38,784**	60,225
Accrued expenses related to lease contracts	**27,999**	14,513
	66,783	74,738

(22) ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

	2020	2019
Spare parts suppliers and accounts payable	**33,866**	11,731
Fuel suppliers	**5,459**	1,560
Ministry of Finance	**1,318**	1,460
Employees Provident fund (Note 33)	**5,853**	3,796
Others*	**26,699**	38,998
	73,195	57,545

* Included in this item international taxes, departure and airports usage taxes of JD 24,558 that are payable to international tax authorities and airports (2019: JD 36,909).

(23) DEFERRED REVENUES

	2020	2019
Unutilized passenger tickets, air waybills and other service sales	**36,629**	49,846
Deferred revenue – Jordan Flight Catering Company Ltd. *	**125**	425
	36,754	50,271

* Alia – The Royal Jordanian Airlines Company signed an 11 year and six month catering contract with Jordan Flight Catering Company during January 2010, and in return the Company was granted an additional share of 10% in Jordan Flight Catering Company. The grant was recorded as deferred revenues to be amortized over the catering contract period of 11 years and six months, which will expire during 2021.

(In Thousands of Jordanian Dinars, except for amounts in foreign currencies)

(24) REVENUES FROM CONTRACTS WITH CUSTOMERS

	2020	2019
Scheduled Services		
Passengers	**131,514**	529,788
Cargo	**19,848**	31,345
Excess baggage	**3,163**	6,906
Airmail	**7,735**	7,934
Total scheduled services (Note 34)	**162,260**	575,973
Chartered flights (Note 34)	**18,182**	10,066
Cargo warehouse revenues	**13,372**	16,555
Commercial revenues from arriving and departing aircrafts of other companies	**5,875**	12,731
Change and cancelation of reservation revenues	**4,250**	10,430
Royal tours revenues (Tours operating revenues)	**1,877**	7,786
First class services revenues	**1,300**	5,988
Frequent flyer revenues	**1,124**	5,112
Ancillary revenue	**1,220**	4,804
Revenues from technical and maintenance services provided to other companies	**1,888**	4,592
Revenues from NDC (Galileo)	**637**	3,373
Other revenues	**638**	3,197
	212,623	660,607

(25) COST OF REVENUES

	2020	2019
Flying operations costs		
Aircraft Fuel	**41,793**	145,915
Other flying operations costs	**37,640**	68,905
Total flying operations costs	**79,433**	214,820
Repair and maintenance	**45,609**	78,983
Aircraft rental expenses	**1,655**	4,654
Depreciation of aircraft and engines and capitalized maintenance	**83,735**	81,256
Stations and ground services	**25,383**	66,096
Ground handling unit	**15,696**	23,398
Passenger services	**25,001**	77,981
	276,512	547,188

(In Thousands of Jordanian Dinars, except for amounts in foreign currencies)

Employees benefits expenses included in cost of revenues are as follows:

	2020	2019
Salaries and wages	**35,926**	42,905
Overtime	**636**	2,542
End of service indemnity	**131**	722
Social Security contribution	**3,340**	5,229
Provident fund contribution	**2,806**	3,157
Medical expenses	**2,176**	2,183
Other benefits	**1,377**	2,128
	46,392	58,866

(26) OTHER EXPENSES, NET

	2020	2019
Legal cases provision	**1,860**	1,860
Other expenses	**446**	165
	2,306	2,025

(27) ADMINISTRATIVE EXPENSES

	2020	2019
Salaries and wages	**5,647**	6,974
Computer expenses	**2,910**	3,319
Depreciation	**2,046**	2,024
Medical expenses	**588**	649
Social security contribution	**558**	827
Legal expenses	**530**	1,040
Professional and consultation expenses	**495**	881
Employees benefits	**422**	784
Provident fund contribution	**405**	500
Water, electricity and heating	**398**	579
Life insurance	**123**	201
Communication expense	**109**	115
Overtime	**76**	257
Maintenance and cleaning expenses	**74**	108
End of service indemnity	**47**	42
Rent	**28**	28
Others	**1,611**	2,594
	16,067	20,922

(In Thousands of Jordanian Dinars, except for amounts in foreign currencies)

(28) SELLING AND MARKETING EXPENSES

	2020	2019
Salaries and wages	**7,700**	10,859
Commission	**5,736**	18,837
Other employee benefits	**1,876**	2,377
Social security contribution	**1,303**	1,720
Depreciation	**1,053**	990
Rent	**749**	955
Medical expenses	**721**	771
Marketing and advertisement	**698**	3,950
Communication expenses	**634**	874
Computer expenses	**590**	834
End of service indemnity	**263**	288
Legal expenses	**232**	282
Provident fund contribution	**219**	287
Water, electricity and heating	**135**	157
Life insurance	**114**	100
Maintenance and cleaning expenses	**93**	164
Consulting expenses	**66**	186
Overtime	**65**	201
Others	**1,682**	2,318
	23,929	46,150

(29) FINANCE COSTS

	2020	2019
Interest on loans	**5,145**	6,999
Leases contracts – finance cost (Note 19)	**20,488**	25,216
Other interest and bank charges	**1,326**	872
	26,959	33,087

(30) PROVISION FOR VOLUNTARY TERMINATION

On 9 February 2020, the Company signed a labor collective contract with the General Trade Union of Workers in Air Transport and Tourism. The agreement covered the period from 9 February 2020 to 29 February 2020, giving the Company’s staff the choice to obtain a voluntary release from their jobs. Accordingly, the Company has recorded a provision that amounted to JD 851 which represents the accrued amounts for employees who applied to the plan and management approved their applications.

On 17 August 2020, the Company signed another labor collective contract with the General Trade Union of Workers in Air Transport and Tourism. The agreement covered the period from 19 August 2020 to 18 September 2020, whereas the Company granted its employees the choice to terminate their contracts upon their request. Accordingly, the Company has recorded a provision amounted to JD 4,234 which represents the accrued amounts for employees who are willing to terminate their service.

(In Thousands of Jordanian Dinars, except for amounts in foreign currencies)

The Company started a termination process of contracts for local employees in some outstations according to the business needs and based on the rules and regulations of those countries. Accordingly, the Company has recorded a provision amounted to JD 88 during 2020.

(31) EARNINGS PER SHARE

	2020	2019
(Loss) profit for the year attributed to the equity holders of the parent ('000)	**(161,017)**	10,393
Weighted average number of shares ('000)	**274,610**	272,910
Basic and diluted earnings per share (JD)	**(0.586)**	0.038

(32) INCOME TAX

The income tax appearing in the consolidated income statement represents the following:

	2020	2019
Deferred tax assets temporary differences	**-**	2,598
Income tax expense	**-**	2,598

No provision for income tax was calculated by the Company for the year ended 31 December 2020 due to the excess of deductible expenses over taxable income in accordance with the Income Tax Law No. (38) of 2014 and its amendments.

The Company filed its tax return for the years from 2017 until 2019 within the statutory period. The Company has reached a final agreement on the tax returns with the Income and Sales Tax Department up to the year ended 31 December 2018 while 2019 tax return has not been reviewed yet.

The Income and Sales Tax Department raised claims to RJ by an amount of JD 2,972 which represents sales tax differences for the years 2012, 2013, 2014 and 2016. The Company appealed the cases at the Tax Court. The cases are still outstanding up to date of the consolidated financial statement. Although results of the cases cannot be determined accurately, management believes that no material liability is likely to result.

Royal Wings Company filed its tax return for the years from 2017 until 2019 within the statutory period. The Income and Sales Tax Department did not review the Company's accounting records up to the date of the consolidated financial statements. Royal Wings Company reached a final settlement with the Income and Sales Tax Department up to the year 2016.

Royal Tours Company filed its tax return for the years of 2017 and 2019 within the statutory period. The Income and Sales Tax Department did not review the Company's accounting records for the years 2017 and 2019 up to the date of the consolidated financial statements. Royal Tours for Travel and Tourism Company reached a final settlement with the Income and Sales Tax Department up to the year 2016 in addition to the year 2018.

Al-Mashriq for Aviation Services Company filed its tax return for the years from 2016 until 2019. The Income and Sales Tax Department has not reviewed the Company's accounting records up to the date of the consolidated financial statements. Al-Mashriq for Aviation Services Company reached a final settlement with the Income and Sales Tax Department up to the year 2015.

(In Thousands of Jordanian Dinars, except for amounts in foreign currencies)

Movement on deferred tax assets was as follows:

	2020	2019
Beginning balance	**12,322**	14,920
Amount released from deferred tax assets	**-**	(2,598)
Ending balance	**12,322**	12,322

Reconciliation between accounting profit and taxable profit

	2020	2019
Accounting (loss) profit	**(161,060)**	12,981
Non-taxable profits	**-**	(2,332)
Non-deductible expenses	**27,462**	2,350
Prior years tax losses	**(108,906)**	(121,905)
Accumulated tax losses	**(242,504)**	(108,906)
Relates to:		
Total loss – Parent Company	**(232,911)**	(108,345)
Total loss – Subsidiaries	**(9,593)**	(561)
Effective income tax rate for subsidiaries	**20%**	20%
Statutory income tax rate	**20%**	20%
Income tax expense	**-**	-

(33) RELATED PARTY TRANSACTIONS

Related party transactions represent transactions with associated companies, employees' Provident fund, and the Government of the Hashemite Kingdom of Jordan. Pricing policies and terms of these transactions are approved by the Group's management.

Following is a summary of balances due to/ from related parties included in the consolidated statement of financial position:

	2020		2019	
	Accounts receivable	**Accounts payable**	Accounts receivable	Accounts payable
Government of Jordan	**43,778**	**1,318**	42,304	1,460
Employees' Provident Fund (Note 22)	**-**	**5,853**	-	3,796
Jordan Aircraft Maintenance Company	**882**	**-**	-	164
Jordan Flight Catering Company	**-**	**527**	-	3,135
Jordan Aircraft Training and Simulation Company	**-**	**31**	-	163
	44,660	**7,729**	42,304	8,718

Payments in respect of capital increase – included in shareholders' equity:

	2020	2019
Government Investments Management Company (Note 17)	**25,000**	-

(In Thousands of Jordanian Dinars, except for amounts in foreign currencies)

- Following is a summary of the transactions with associated companies included in the consolidated income statement:

	2020	2019
Jordan Aircraft Maintenance Company (JORAMCO):		
Scheduled services revenues	**131**	257
Repair and maintenance expenses	**(2,510)**	(4,303)
Jordan Flight Catering Company Ltd.:		
Passenger services expenses	**(3,396)**	(13,656)
Jordan Aircraft Training and Simulation Company:		
Scheduled services revenues	**14**	10
Pilots training expenses	**(608)**	(866)

The Company signed a 4 years maintenance contract with Jordan Aircraft Maintenance Company (JORAMCO) during January 2005, and in return the Company was granted a 20% share in Jordan Aircraft Maintenance Company. The contract was extended for 7 years up to the end of October 2016. The contract was renewed up to the end of January 2021.

The Company signed a 4 year training contract with Jordan Aircraft Training and Simulation Company during July 2006 and in return the Company was granted a share of 20% in Jordan Aircraft Training and Simulation Company which has been extended until the end of January 2022.

Alia – The Royal Jordanian Airlines Company signed a 11 years and six months catering contract with Jordan Flight Catering Company during 2010, and in return the Company was granted an additional share of 10% in Jordan Flight Catering Company to reach a total share of 30%.

- Following is a summary of the transactions with the Government of the Hashemite Kingdom of Jordan included in the consolidated income statement:

	2020	2019
Scheduled services revenues – passengers	**2,992**	3,888
Scheduled services revenues – cargo	**937**	1,064
Charter flights	**285**	4,040
	4,214	8,992

- The Company’s contribution to the employees’ saving fund amounted to JD 3,429 and JD 3,944 for the years 2020 and 2019, respectively.

Compensation of key management personnel

The remuneration of members of key management during the year was as follows:

	2020	2019
Salaries and other benefits *	**1,048**	1,042
Board of Directors remuneration	**42**	43

* Included in this amount a one-time payment of JD 223 which represents the end of contract remuneration for the Company’s CEO.

(In Thousands of Jordanian Dinars, except for amounts in foreign currencies)

(34) GEOGRAPHICAL DISTRIBUTION OF REVENUES

All operations are integrated under the airline business. The Group does not have any segment information other than the geographical distribution of revenues, which is used by the management executives to measure the Group's performance:

	2020				2019			
	Scheduled services	**Chartered Flights Passengers**	**Chartered Flights Cargo**	**Total**	Scheduled services	Chartered Flights Passengers	Chartered Flights Cargo	Total
Levant	**17,454**	**-**	**1,400**	**18,854**	71,127	230	3,345	74,702
Europe	**41,405**	**224**	**2,841**	**44,470**	160,055	1,544	1,818	163,417
Arab Gulf	**47,573**	**114**	**421**	**48,108**	137,370	-	-	137,370
America	**43,880**	**-**	**1,727**	**45,607**	145,265	-	2,376	147,641
Asia	**8,970**	**525**	**10,778**	**20,273**	50,629	554	-	51,183
Africa	**2,978**	**152**	**-**	**3,130**	11,527	199	-	11,726
Total Revenue	**162,260**	**1,015**	**17,167**	**180,442**	575,973	2,527	7,539	586,039

(35) FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of cash and bank balances, accounts receivable, financial assets at fair value through other comprehensive income, and some other current assets. Financial liabilities consist of accounts payable, bank loans, bank overdrafts, lease obligation and some other current liabilities.

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

(36) Fair Value Hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1 - market prices in active markets for identical assets or liabilities.
Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

31 December 2020	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets:				
Financial assets at fair value through other comprehensive income	-	-	2,265	2,265
Derivative financial instruments (within other current assets)	435	-	-	435
	435	-	2,265	2,700

(In Thousands of Jordanian Dinars, except for amounts in foreign currencies)

31 December 2019				
Financial assets:				
Financial assets at fair value through other comprehensive income	-	-	2,697	2,697
Derivative financial instruments (within other current assets)	316	-	-	316
	316	-	2,697	3,013

(37) RISK MANAGEMENT

Interest rate risk

The Group is exposed to interest rate risk on its interest-bearing financial assets and liabilities (bank deposits, obligation under leases, bank loans and bank overdrafts).

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the Group's profit for one year, based on the floating rate financial assets and financial liabilities held at 31 December 2020.

The following table demonstrates the sensitivity of the consolidated income statement to reasonably possible changes in interest rates as of 31 December 2020 and 2019, with all other variables held constant.

2020-	**Increase in interest rate (points)**	**Effect on loss**
Currency		
USD	50	(927)
JD	50	137

	Decrease in interest rate (points)	**Effect on loss**
Currency		
USD	(25)	464
JD	(25)	(69)

2019-	**Increase in interest rate (points)**	**Effect on profit**
Currency		
USD	50	(1,004)
JD	50	139

	Decrease in interest rate (points)	**Effect on profit**
Currency		
USD	(25)	502
JD	(25)	(70)

(In Thousands of Jordanian Dinars, except for amounts in foreign currencies)

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and monitoring outstanding receivables and with respect to banks by only dealing with reputable banks.

The Group provides its services to a large number of customers. No single customer accounts for more than 10% of outstanding accounts receivable at 31 December 2020 and 2019.

Liquidity risk

The Group limits its liquidity risk by ensuring bank facilities are available.

The table below summarises the maturities of the Group's (undiscounted) financial liabilities at 31 December 2020 and 2019, based on contractual payment dates and current market interest rates.

31 December 2020	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Accounts payables and other current liabilities	73,195	-	-	-	73,195
Bank loans	4,388	24,408	100,569	-	129,365
Lease obligations	23,604	67,755	259,843	79,410	430,612
Other long-term liabilities	-	-	-	413	413
Total	**101,187**	**92,163**	**360,412**	**79,823**	**633,585**

31 December 2019	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Bank overdraft	-	3,069	-	-	3,069
Accounts payables and other current liabilities	57,545	-	-	-	57,545
Bank loans	4,319	23,058	79,754	-	107,131
Lease obligations	20,580	61,014	353,734	86,713	522,041
Other long-term liabilities	-	-	-	393	393
Total	**82,444**	**87,141**	**433,488**	**87,106**	**690,179**

Currency risk

The table below indicates the Group's foreign currency exposure at 31 December, as a result of its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the JD currency rate against the foreign currencies, with all other variables held constant, on the consolidated statement of income.

2020 -

Currency	*Increase in foreign currency rate to the JD currency* (%)	*Effect on loss*
Euro	1	(33)
GBP	1	3
SDG	1	3

(In Thousands of Jordanian Dinars, except for amounts in foreign currencies)

Currency	*Decrease in foreign currency rate to the JD currency*	*Effect on loss*
	(%)	
Euro	(1)	33
GBP	(1)	(3)
SDG	(1)	(3)

2019 -

Currency	*Increase in foreign currency rate to the JD currency*	*Effect on profit*
	(%)	
Euro	1	69
GBP	1	33
SDG	1	15

Currency	*Decrease in foreign currency rate to the JD currency*	*Effect on profit*
	(%)	
Euro	(1)	(69)
GBP	(1)	(33)
SDG	(1)	(15)

The Jordanian Dinar exchange rate is fixed against the U.S. Dollars (USD 1.41 for JD 1).

Losses on foreign exchange rates amounted to JD 1,634 for the year ended 31 December 2020 of which JD 940 resulted from the fluctuation in the Sudanese Pound (31 December 2019: foreign exchange loss of JD 1,772 of which JD 969 resulted from the fluctuation in the Sudanese Pound).

(38) 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 shareholder value.

Capital comprises of share capital, share discount, payments in respect of capital increase, statutory reserve and accumulated losses and is measured at a deficit of JD 10,193 JD as at 31 December 2020 (2019: JD 125,824).

The Group’s accumulated losses of JD 246.4 million as of 31 December 2020 represents 90% of the Company’s capital. Also, the Company’s current liabilities exceeded its current assets by an amount of JD 143.8 million as of 31 December 2020. These events or conditions indicate that a material uncertainty exists that may cast significant doubt about the entity’s ability to continue as a going concern. According to Article (266) of the Jordanian Company’s Law No. 22 for the year 1997 and its amendments, if the accumulated losses of the public shareholding company exceed 75% of its capital, the Company shall be liquidated unless the General Assembly of the Company issues a decision on its extraordinary meeting to increase the Company’s capital or to deal with the Company’s losses. The Prime Ministry of Jordan resolved to authorize the Ministry of Finance to proceed with further procedures to increase the Company’s capital by JD 50 million over two phases, subject to a comprehensive turnaround and rightsizing plan across all key operational and financial pillars. The first phase fell during the fourth quarter of 2020 and the second phase will be paid during 2021. Accordingly, the Company has recorded an amount of JD 25 million as payments in respect of capital increase as of 31 December 2020 (Note 17). Capital increase procedures were not completed up to the date of the consolidated financial statements. Furthermore, the Company received a comfort letter from the Ministry of Finance (the Jordanian Government’s representative), stating that the Government is in favor of continuing to support the Company’s operations in the future.

Also, the Company's management is in the process of performing the restructuring business plan that supports the Company's business continuity and its ability to recover its assets and generate future cash flows to settle its liabilities.

(39) CONTINGENCIES AND COMMITMENTS

Letters of credit and guarantees

As of 31 December 2020, the Group had letters of credit amounted to JD 19,721 and letters of guarantees amounted to JD 476 (31 December 2019: letters of credit: JD 8,596 and letters of guarantees: JD 647).

Claims against the Group

The Group is a defendant in a number of lawsuits amounting to JD 14,821 (2019: JD 7,992) representing legal actions and claims related to its ordinary course of business. Related risks have been analyzed as to the likelihood of occurrence, although the outcome of these matters cannot always be ascertained with precision. In the opinion of the Group and their legal counsels, the provision recognized as of 31 December 2020 is sufficient to cover any contingent liabilities and claims that may arise from these lawsuits.

Capital commitments

As of 31 December 2020, the Group had capital commitments of USD 453,013,157 (2019: USD 453,013,157), equivalent to JD 321,286 (2019: JD 321,286) relating to finance lease agreements signed for three new aircrafts. The Group has the option not to purchase these aircrafts given that it informs the aircrafts producer during a maximum period of thirty-seven months prior to the date of delivery of these aircrafts.

During January 2021, the Company exercised its right to cancel the first aircraft which was due to be delivered by the first quarter of the year 2024 without any liability. The amount of the advances paid for the related aircraft amounted to USD 2,249,060 was deducted from the Company's payables.

(40) STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

IFRS 17 Insurance Contracts

IFRS 17 provides a comprehensive model for insurance contracts covering the recognition and measurement and presentation and disclosure of insurance contracts and replaces IFRS 4 -Insurance Contracts. The standard applies to all types of insurance contracts (i.e. life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. The standard general model is supplemented by the variable fee approach and the premium allocation approach.

The new standard will be effective for annual periods beginning on or after 1 January 2023 with comparative figures required. Early application is permitted provided that the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

The standard is not expected to have a material impact on the Groups consolidated financial statements.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- what is meant by a right to defer settlement,
- the right to defer must exist at the end of the reporting period,
- that classification is unaffected by the likelihood,
- that an entity will exercise its deferral right,
- and that only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. These amendments are not expected to have a metrical impact on the Group.

Reference to the Conceptual Framework – Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential ‘day 2’ gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively. These amendments are not expected to have a material impact on the Group.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the Group.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37
In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities.

General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

The amendments are not expected to have a material impact on the Group.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities
As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received by the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendments are not expected to have a material impact on the Group.

IBOR reform Phase 2
IBOR reform Phase 2, which will be effective on 1 January 2021, includes a number of reliefs and additional disclosures. The reliefs apply upon the transition of a financial instrument from an IBOR to a risk-free-rate (RFR).

Changes to the basis for determining contractual cash flows as a result of interest rate benchmark reform are required as a practical expedient to be treated as changes to a floating interest rate, provided that, for the financial instrument, the transition from the IBOR benchmark rate to RFR takes place on an economically equivalent basis.

IBOR reform Phase 2 provides temporary reliefs that allow the Bank's hedging relationships to continue upon the replacement of an existing interest rate benchmark with an RFR. The reliefs require the Bank to amend hedge designations and hedge documentation. This includes redefining the hedged risk to reference an RFR, redefining the description of the hedging instrument and / or the hedged item to reference the RFR and amending the method for assessing hedge effectiveness. Updates to the hedging documentation must be made by the end of the reporting period in which a replacement takes place.

For the retrospective assessment of hedge effectiveness, the Bank may elect on a hedge by hedge basis to reset the cumulative fair value change to zero. The Bank may designate an interest rate as a non-contractually specified, hedged risk component of changes in the fair value or cash flows of a hedged item, provided the interest rate risk component is separately identifiable, e.g., it is an established benchmark that is widely used in the market to price loans and derivatives. For new RFRs that are not yet an established benchmark, relief is provided from this requirement provided the Bank reasonably expects the RFR to become separately identifiable within 24 months. For hedges of groups of items, the Bank is required to transfer to subgroups those instruments that reference RFRs. Any hedging relationships that prior to application of IBOR reform Phase 2, have been discontinued solely due to IBOR reform and meet the qualifying criteria for hedge accounting when IBOR reform Phase 2 is applied, must be reinstated upon initial application. (if applicable)

The amendments are not applicable to the Company.