Avolon Aerospace UK 7 Limited

Directors' Report and Financial Statements

For the financial year ended 31 December 2019

Avolon Aerospace UK 7 Limited

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Avolon Aerospace UK 7 Limited

Directors and Other Information

Directors	Edward Riley Charles Leahy (appointed 16 January 2019) MaplesFS UK Corporate Director No.1 Limited (appointed 16 January 2019) MaplesFS UK Corporate Director No.2 Limited (appointed 16 January 2019) Julius Bozzino (resigned 16 January 2019) Sunil Masson (resigned 16 January 2019)
Company number	9725663
Registered office	11th Floor 200 Aldersgate Street London EC1A 4HD England
Company secretary	Maples Fiduciary Services (UK) Limited (appointed 16 January 2019) 11th Floor 200 Aldersgate Street London EC1A 4HD England Sunil Masson (resigned 16 January 2019)
Bankers	Wells Fargo Bank, N.A. One Plantation Place 30 Fenchurch Street London EC3M 3BD United Kingdom

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Directors and Other Information (continued)

Corporate administrator	Maples Fiduciary Services (UK) Limited (appointed 16 January 2019) 11th Floor 200 Aldersgate Street London EC1A 4HD England
	Vistra (UK) Limited (resigned 16 January 2019) 3rd Floor 1-12 St. James Square Suite 2 London SW1Y4LB United Kingdom
Arranger	Avolon Aerospace Leasing Limited The Oval, Building 1 Shelbourne Road Ballsbridge Dublin 4 Ireland

Avolon Aerospace UK 7 Limited

Directors' Report

The directors (the "Directors") present their report and the audited financial statements of Avolon Aerospace UK 7 Limited (the "Company") for the financial year ended 31 December 2019 (the "financial year").

Company Background

The Company was incorporated in England and Wales on 10 August 2015 as a private limited company and GBP 1 ordinary share was issued at par and fully paid on that date. The Company commenced trading in August 2016.

The principal activity of the Company is the leasing of one Boeing 737-800 aircraft bearing manufacturer's serial number 61296 (the "Aircraft"), under Lease Agreement, to NOK Airlines Public Company Limited (the "Lessee"). The proceeds from the leases are used to pay Avolon Aerospace AOE 132 Limited (the "Owner") under the Head Lease Agreement.

Strategic Report

As the Company qualifies as a small company under the Companies Act 2006, the Company is exempt from the requirement to prepare the strategic report as permitted by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

Key Performance Indicators ("KPIs")

The key performance indicator of the business is considered to be the lease income derived from the leasing of the Aircraft to the Lessee. The profit for the financial year to 31 December 2019 of US$ 9,960 (2018: US$ 47,128) was significantly attributable to the lease income derived from the leasing of the Aircraft.

Results and Dividends

The results of the Company for the financial year are set out in the Statement of Profit or Loss Account and Other Comprehensive Income on page 8 and in the Statement of Changes in Equity on page 11.

The Directors do not recommend the payment of a dividend for the financial year ended 31 December 2019 (2018: Nil).

Directors' and Secretary's Interests

The names of Directors and Company Secretary who held office at any time during the financial year are set out on page 1. In accordance with the Articles of Association the Directors are not required to retire by rotation.

The Directors did not have any interest in the shares or options of the Company at any time during the financial year ended 31 December 2019.

Political Contributions

The Company did not make any political donations during the financial year (2018: Nil).

Avolon Aerospace UK 7 Limited

Directors' Report (continued)

Financial Risk Management

The primary risks arising from the Company's financial instruments are credit risk, liquidity risk and operational risk. The principal nature of these risks is summarised below.

The ultimate parent company, Avolon Holdings Limited ("AHL"), has formed a number of sub-committees comprising both directors and management to appropriately monitor and evaluate the key risks of the business of the Company. These risks are:

Credit Risk
There is a risk that the counterparties to the lease contracts will default on their liability exposing the Company to credit risk. The Company has limited credit risk since its contractual obligations in respect of lease payments are subject to lease receipts from the counterparty and the performance of the Lessee is guaranteed by Avolon Aerospace Leasing Limited (the "Guarantor") in accordance with the 'Deed of Guarantee'. Also, the parent company, Avolon Aerospace Leasing Limited, has a dedicated risk management team in place which reviews the credit risk of its counterparts, as a group.

Each new lessee is assessed prior to the Company entering into commitments and the assessment is considered by the Company's Board as part of the investment approval decision. In addition, the Company's leases contain credit risk protection in the form of letter of credit deposits. Credit risk is monitored and managed by the business on an on-going basis, with regular review of credit performance and receivable monitoring.

The Company also has significant cash balances included in its financial assets and these deposits give rise to credit risk on amounts due from counterparties. Before placing cash with any bank, the Company has due consideration to both investment return and credit risk. Although all of its cash balance is held with only one bank, the concentration risk is deemed insignificant given the credit rating of Wells Fargo Bank N.A.

Liquidity Risk
In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the financing policy of the Company is such that the maturity profile of the Company's obligations are matched to the profile of its revenue thereby reducing the Company's liquidity risk.

If the Company cannot meet its obligations, it may be required to restrict all cash inflows to meet its financial obligations and may even be unable to continue to operate on a going concern basis. Based on all information available, the directors believe that the Company has sufficient liquidity to meet its obligations as they fall due and that it continues to be appropriate to prepare the financial statements on a going concern basis. Please refer to not 16 for further details

Operational Risk
Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks are inherent in all business activity.

The Company was incorporated with the purpose of engaging in those activities outlined in the preceding paragraphs. All administration functions have been outsourced by the Company to Maples Fiduciary Services (UK) Limited who has an operational risk management function that assist and advise line management on specific operational risks.

Avolon Aerospace UK 7 Limited

Directors' Report (continued)

Subsequent events

The outbreak of COVID-19 has led to travel restrictions and cancellation of flights impacting a number of our airline customers across the globe. While it is difficult to predict the extent of the impact from COVID-19, the outbreak and the related decreased demand for aircraft travel is significantly impacting the Company's customers, being the airlines, which could lead to their inability to meet their lease payment obligations to the Company, lead to cancellations and no extension of their lease contracts with us which could negatively affect our financial condition, cash flow and results from operating activities. In July 2020, NOK Airlines Public Company Limited filed for bankruptcy protection. As part of this, the Company will enter into negotiations with the airline with regards to any potential lease restructuring.

Due to the current challenging environment, the Directors have considered the impact on Avolon Holdings Limited, the Parent undertaking, and its subsidiaries, in the context of the Company's use of the going concern basis of preparation at the date of signing of these financial statements by evaluating all cash inflows and outflows of Avolon Holdings Limited and its subsidiaries, over the coming year under the following assumptions:

- Current unrestricted cash on hand balance available,
- Additional liquidity from available undrawn debt facilities
- Deferral of all contractually committed lease cash inflows for the next 9 months;
- Forecasted cash outflows for all capital expenditure for the next 12 months; and
- Forecasted cash outflows for all contractual debt and lease obligations and selling, general and administrative expenses for the next 12 months;

Based on this analysis and all information available at present, the Directors believe that the Company has sufficient liquidity to meet its obligations as they fall due and that it continues to be appropriate to prepare the financial statements on a Going Concern basis of preparation.

Going Concern

The Directors have considered the adequacy of the Company's funding, cash flows and expected performance for at least the next 12 months and are satisfied that the financial statements are prepared on a going concern basis. Please refer to note 16 for further details.

Disclosure of information to auditors

The Directors in office at the date of this report have each confirmed that:

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

Avolon Aerospace UK 7 Limited

Directors' Report (continued)

Statement of audit exemption

For the financial year ending 31 December, the company was entitled to exemption from audit under section 477 of the Companies Act 2006 relating to small companies.

The members have not required the company to obtain an audit of its accounts for the financial year in question in accordance with section 476.

The directors acknowledge their responsibilities for complying with the requirements of the Act with respect to accounting records and the preparation of accounts.

These accounts have been prepared in accordance with the provisions applicable to companies subject to the small companies' regime.

This report was approved by the board on 31st July 2020

Charles Leahy

Director

Avolon Aerospace UK 7 Limited

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRS as adopted by the European Union (''EU'') and applicable law.

Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that financial year. In preparing these financial statements, the Directors are required to:

In preparing these financial statements, the Directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with applicable accounting standards and identify the standards in question, subject to any material departures from those standards being disclosed and explained in the notes to the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Approved by the board on

This report was approved by the board on 31st July 2020

Charles Leahy

Director

Avolon Aerospace UK 7 Limited

Statement of Profit or Loss Account and Other Comprehensive Income
For the financial year ended 31 December 2019

	Note	Financial year ended 31-Dec-2019 US$	Financial year ended 31-Dec-2018 US$
Revenue			
Finance lease income	3	1,214,046	-
Finance lease expense	3	(1,189,765)	-
Operating lease income	3	-	3,611,088
Operating lease expense	3	-	(3,538,866)
Total net revenue		**24,281**	**72,222**
Other income/(expenses)			
Other expenses	4	(18,016)	(21,404)
Finance income		5,698	7,364
Profit on ordinary activities before taxation		**11,963**	**58,182**
Taxation	5	(2,273)	(11,054)
Profit for the financial year		**9,690**	**47,128**
Other comprehensive income for the financial year		-	-
Total comprehensive income for the financial year		**9,690**	**47,128**

All amounts relate to continuing operations.

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

Avolon Aerospace UK 7 Limited

Statement of Financial Position
As at 31 December 2019

	Note	2019 US$	2018 US$
Non-current assets			
Investment in finance lease	6	25,671,487	-
		25,671,487	-
Current assets			
Cash	6	-	-
Restricted cash	7	1,091,827	502,422
Amounts due from related parties	8	7,791,882	5,284,201
Other receivables		9,855	219,460
		8,893,564	**6,006,083**
Total assets		**34,565,051**	**6,006,083**
Current liabilities			
Trade and other payables		-	3,208
Current tax liabilities		95,176	11,054
Accrued maintenance liabilities	10	7,834,573	4,981,687
		7,929,749	**4,995,949**
Non-current liabilities			
Net obligation in finance lease	9	25,158,057	-
Security deposit		902,772	902,772
		26,060,829	**902,772**
Total liabilities		**33,990,578**	**5,898,721**
Net assets		**574,473**	**107,362**
Capital and reserves			
Share capital	11	2	2
Retained earnings		574,471	107,360
		574,473	**107,362**

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

For the financial year 31 December 2019 and 2018, the company was entitled to exemption from audit under section 477 of the Companies Act 2006 relating to small companies.

The members have not required the company to obtain an audit of its accounts for the financial year in question in accordance with section 476.

Avolon Aerospace UK 7 Limited

Statement of Financial Position (continued)
As at 31 December 2019

The directors acknowledge their responsibilities for complying with the requirements of the Act with respect to accounting records and the preparation of accounts.

These accounts have been prepared in accordance with the provisions applicable to companies subject to the small companies' regime.

Approved by the board and authorised for issue on 31st July 2020

Charles Leahy

Director

Avolon Aerospace UK 7 Limited

Statement of Changes in Equity
For the financial year ended 31 December 2019

	Share Capital	Retained Earnings	Total Equity
	US$	**US$**	**US$**
Balance at 1 January 2018	**2**	**60,232**	**60,234**
Profit for the financial year	-	47,128	47,128
Balance at 1 January 2019	**2**	**107,360**	**107,362**
Profit for the financial year	-	9,960	9,960
Changes on initial application of IFRS 16	-	457,421	457,421
Balance at 31 December 2019	**2**	**574,471**	**574,473**

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

Avolon Aerospace UK 7 Limited

Statement of Cash Flows
For the financial year ended 31 December 2019

	Financial year ended 31 December 2019 US$	Financial year ended 31 December 2018 US$
Cash flows from operating activities		
Profit before taxation	11,963	58,182
Adjustments for:		
Finance lease income	(1,214,046)	
Finance lease expense	1,189,765	
Operating profit before working capital changes	(12,318)	58,182
Increase in amounts due from related parties and other receivables	(2,329,804)	(4,907,829)
Increase in trade and other payables and maintenance liabilities and security deposit	2,849,678	2,492,985
Cash (used in) / generated from operating activities	**507,556**	**(2,356,662)**
Income tax paid	(81,849)	(14,362)
Net cash inflows from operating activities	**589,405**	**(2,371,024)**
Cash flows from financing activities		
(Increase)/decrease in restricted cash	(589,405)	2,371,024
Net cash outflows from financing activities	**(589,405)**	**2,371,024**
Net change in cash and equivalents	-	-
Cash and cash equivalents at the beginning of the financial year	-	-
Cash and cash equivalents at the end of the financial year	-	-

The accompanying notes form an integral part of these financial statements

Avolon Aerospace UK 7 Limited

Notes to the Financial Statements

1 Company Background

The Company was incorporated on 10 August 2015 in England and Wales with registered number 9725663. The registered office of the Company is 11th floor, 200 Aldersgate Street, London, United Kingdom. The Company commenced trading in August 2016.

The principal activity of the Company is the leasing of one Boeing 737-800 aircraft bearing manufacturer's serial number 61296 (the "Aircraft") under the Lease Agreement, to NOK Airlines Public Company Limited (the "Lessee"). The proceeds from the lease are used to pay Avolon Aerospace AOE 132 Limited (the "Owner") of the Aircraft under the Head Lease Agreement.

2 Significant Accounting Policies

(a) Basis of Preparation

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretation Committee (IFRIC) as adopted by the European Union ("EU") and as applied in accordance with the Companies Act 2006, IFRSs applied by the Company in the preparation of these financial statements and those that were effective at 31 December 2017. The accounting policies have been consistently applied by the Company unless otherwise described. The principal accounting policies adopted by the Company are set out below.

The financial statements have been prepared on a going concern and a historical cost basis. Please refer to note 16 for further details

(b) Use of estimates and judgements

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on various factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed by the Directors on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The judgements and estimates involved in the Company's accounting policies are those that are considered by the Directors to be the most important to the portrayal of the Company's financial condition and that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial financial year.

Avolon Aerospace UK 7 Limited

Notes to the Financial Statements (continued)

2 Significant Accounting Policies (continued)

(c) New and Amended Standards

Effective in 2019 that are Relevant to the Company

The Company has adopted the following new standards and interpretations, which are mandatorily effective for the annual periods beginning on or after 1 January 2019:

IFRS 16: Leases

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

Lessees are also required to remeasure the finance lease obligation upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the finance lease obligation as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting requirements under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

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

Transition to IFRS 16

As permitted by the transitional provisions of IFRS 16, The Company applied the modified retrospective approach under the standard, not restating comparative figures but recognising the effect of initially applying IFRS 16 at 1 January 2019 by recognising the investment in finance lease and net obligation in finance lease on that date. The Company has reviewed the impact of IFRS 16 and determined that the impact recognition of an investment in finance lease of US$ 28 million , net obligation in finance lease of US$ 27.5 million, trade and other payables of US$ 3,320 and retained earnings of US$ 564,591 on Statement of Financial Position at 1 January 2019. The adoption resulted in a credit of US$24,281 to the Statement of Profit and Loss and Other Comprehensive Income for the year ended 31 December 2019.

The investment in finance lease and net obligation in finance lease were discounted using the weighted average cost of debt of the AHL Group as at 1 January 2019 of 4.5%. A single discount rate was applied to all operating leases due to the similar nature of the leases.

The Company has elected to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Company will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

Notes to the Financial Statements (continued)

2 Significant Accounting Policies (continued)

(c) New and Amended Standards (continued)

Effective in 2019 that are Relevant to the Company (continued)

IFRIC Interpretation 23: Uncertainty over income tax treatments

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Company has reviewed the impact of the initial application of IFRIC Interpretation 23 and determined that there is no impact for the Company.

Annual Improvements 2015-2017 Cycle (issued in December 2017)

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

The Company has reviewed the impact of the initial application of these amendments and has determined that there is no impact for the Company.

Effective Subsequent to 2019 but not Adopted Early

The Directors have reviewed those standards and interpretations that are issued and effective subsequent to financial period end but not adopted early. The Directors assessed that none of those new standards and interpretations will have significant impact to the Company's financial statements.

Description	**Effective date (period beginning)**
Amendments to IFRS 3: *Business Combinations*	1 January 2020
Amendments to IAS 1 and IAS 8: *Definition of Material*	1 January 2020
Amendments to References to Conceptual Framework in IFRS Standards	1 January 2020
Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7	1 January 2020

The Company is still in the process of reviewing the impact of the upcoming standards to determine their impact but do not anticipate that the application of these amendments will have a significant impact on the Company's financial statements.

Avolon Aerospace UK 7 Limited

Notes to the Financial Statements (continued)

2 Significant Accounting Policies (continued)

(c) New and Amended Standards (continued)

Amendments to IFRS 3: *Business Combinations*
'Definition of a Business (Amendments to IFRS 3)' is aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020.

The amendments in Definition of a Business (Amendments to IFRS 3) are changes to Appendix A Defined terms, the application guidance, and the illustrative examples of IFRS 3 only. They:

- clarify that to be considered a business, an acquired 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 outputs;
- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs;
- add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and
- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

The Company does not anticipate any significant impact on the financial statements as a result of the amendments.

Amendments to IAS 1 and IAS 8: *Definition of Material*
'Definition of Material (Amendments to IAS 1 and IAS 8)' is intended to clarify the definition of 'material' and to align the definition used in the Conceptual Framework and the standards themselves. The amendments are effective annual reporting periods beginning on or after 1 January 2020. The changes in Definition of Material (Amendments to IAS 1 and IAS 8) all relate to a revised definition of 'material' which is quoted below from the final amendments: *Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.*

The Company does not anticipate any significant impact on the financial statements as a result of the amendments.

Amendments to References to Conceptual Framework in IFRS Standards
Amendments to References to the Conceptual Framework in IFRS Standards contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASC framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2018) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised Conceptual Framework. The amendments, where they actually are updates, are effective for annual periods beginning on or after 1 January 2020.

The Company does not anticipate any significant impact on the financial statements as a result of the amendments.

2 Significant Accounting Policies (continued)

(c) New and Amended Standards (continued)

Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39 and IFRS 7
Interest Rate Benchmark Reform contains amendments to IFRS 9, IAS 39 and IFRS 7. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR). 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.

The Company does not anticipate any significant impact on the financial statements as a result of the amendments.

(d) Functional and presentation currency

The financial statements are presented in United States Dollar (USD), which is the Company's functional currency. Functional currency is the currency of the primary economic environment in which the entity operates. The Company's main transactions are denominated in US$. The Directors of the Company believe that US$ most faithfully represents the economic effects of the underlying transactions, events and conditions.

(e) Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Company is a lessee and enters into a sublease agreement with a third party, the Company recognises an investment in finance leases and a net obligation in finance leases. The investment in finance leases and the net obligation in finance leases represent the present value of the future lease payments, discounted at the weighted average cost of debt of the Avolon Holdings Limited Group.

(f) Investment in finance leases

Where a lease arrangement includes an option to purchase the leased equipment at the end of the lease term, a bargain purchase option, or provides for minimum lease payments with a present value of 90% or more of the fair value of the lease equipment at the date of lease inception, the lease is classified as a finance lease.

Investment in finance leases represents the minimum lease payments due from lessee, net of unearned income. The lease payments are segregated into principal and interest components similar to a loan. Unearned income is recognized on an effective interest rate method over the lease term and is recorded as finance lease income. The principal component of the lease payment is reflected as a reduction to the investment in finance leases.

(g) Net obligation in finance lease

Net obligation in finance leases represents minimum lease payments made under finance leases. These are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

2 Significant Accounting Policies (continued)

(h) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the financial year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

Deferred tax

Deferred tax is recognised using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

(i) Financial instruments

The Company's financial asset categories are financial assets at amortised costs. Financial assets at amortised costs comprise "investment in finance leases", “restricted cash”, “unrestricted cash”, “other receivables”, “amounts due to other group undertakings” and "amounts due from immediate parent undertaking".

The Company's financial liabilities are all categorised as financial liabilities measured at amortised cost. Financial liabilities measured at amortised cost comprise “accrued maintenance liabilities”, "current tax payable" and "net obligation in finance leases".

1. Financial assets

Initial recognition and measurement

Financial assets that are classified as amortised cost are initially recognised at fair value and subsequently measured at amortised cost. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. The Company's debtors do not contain a significant financing component and as such are measured at the transaction price.

Avolon Aerospace UK 7 Limited

Notes to the Financial Statements (continued)

2 Significant Accounting Policies (continued)

(i) Financial instruments (continued)

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Subsequent measurement

For the purposes of subsequent measurement, financial assets are classified as follows:

- Financial assets at amortised cost

Financial assets at amortised cost

The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Company's financial assets at amortised cost are investment in finance leases, restricted cash, unrestricted cash, other receivables, amounts due to other group undertakings and amounts due from immediate parent undertaking.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Statement of financial position) when:

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

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

2 Significant Accounting Policies (continued)

(i) Financial instruments (continued)

Derecognition (continued)

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

Impairment of financial assets

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cashflows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit loss exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off for these reasons when there is no reasonable expectation of recovering the contractual cash flows.

2. Financial liabilities

Initial recognition and measurement

Financial liabilities are classified at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include corporation tax payable, accrued maintenance liabilities and net obligation in finance leases.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Company has not designated any financial liability as fair value through profit or loss.

2 Significant Accounting Policies (continued)

(i) Financial instruments (continued)

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the Income Statement.

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the rate of interest of the reporting date.

Offsetting of financial instruments

Financial assets and financial liabilities are offset, and the net amount is reported in the Balance sheet if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

(j) Finance lease investments

Non-derivative financial instruments

Non-derivative financial instruments comprise investment in finance leases, comprise accrued maintenance liabilities, current tax payable and net obligation in finance leases. Non-derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition non-derivative financial instruments are measured at cost using the effective interest rate method, less any impairment losses.

Debtors

Debtors represent investment in finance leases and amounts owed by group undertakings.

Creditors

Creditors represent corporation tax payable and net obligation in finance leases.

(k) Restricted cash

Restricted cash comprises cash held by the Company but which is used as security for specific financing arrangements, and to which the Company does not have unfettered access. All restricted cash is held in cash deposit accounts with major financial institutions in segregated accounts or constitutes short-term overnight AAA-rated money market products predominantly issued by the U.S. government.

Avolon Aerospace UK 7 Limited

Notes to the Financial Statements (continued)

2 Significant Accounting Policies (continued)

(l) Accrued Maintenance Liabilities

Maintenance reserves received in cash from lessees are recognised as maintenance liabilities on the Statement of financial position (liabilities) in recognition of the contractual commitment to either refund such receipts or to hold them for future scheduled maintenance work to be performed thereafter. Maintenance work performed by lessees will not be capitalized, but instead will be recorded as a refund of maintenance reserve and shown as a deduction from the payments by the Company for maintenance liabilities account on the statement of financial position. Lessor contributions and top-ups to maintenance reserves will be recorded as a leasing expense (over the term of the lease), except where a liability exists by virtue of having purchased an aircraft with leases attached including an obligation to refund maintenance reserve payments made to date by the lessee, or where they are deemed to be modifications/ improvements that materially improve the value of the asset/ lease or extends its useful life whereby it would be capitalised and depreciated over the respective life of the asset or remaining term of the lease. When flight equipment is sold the portion of accrued liability which is not assigned to the buyer is recognized as sales revenue by the head-lessor, a fellow group undertaking. The Company relies on its ongoing use of its maintenance forecasting model to assess contractual commitments to refund maintenance receipts.

(m) Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

(n) Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. 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. Fair values have been determined for measurement and/ or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (i.e. as quoted prices) or indirectly (i.e. derived from quoted prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Notes to the Financial Statements (continued)

3 Revenue

	Financial year ended 31-Dec-2019 US$	Financial year ended 31-Dec-2018 US$
Finance lease income	1,214,046	
Finance lease expense	(1,189,765)	
Lease rental income	-	3,611,088
Cost of Sales	-	(3,538,866)
	24,281	**72,222**

For the year ended 31 December 2019, all of the finance lease income is derived form a finance lease asset held by the Company with an external third party airline. Further details of future finance lease revenue is outlined in Note 6.

Finance lease income arises from the leasing of aircraft under finance leases. All income derives from activities carried out in Asia Pacific.

At 31 December 2019, the lease contract is not scheduled to expire during the year ending 31 December 2020 (2018: Nil).

At 31 December 2019, the lease contract does not provide the lessee with any early termination rights (2018: Nil).

4 Other Expenses

	Financial year ended 31-Dec-2019 US$	Financial year ended 31-Dec-2018 US$
Other expenses	(18,016)	(21,404)
	(18,016)	**(21,404)**

The audit fees incurred in respect of this Company were paid for by Avolon Aerospace Leasing Limited in its capacity as manager/ servicer of the Company for the financial years ended 31 December 2019 and 2018.

The Company did not directly employ any persons during the financial year.

Avolon Aerospace UK 7 Limited

Notes to the Financial Statements (continued)

5 Taxation

a) Analysis of tax charge for the financial year

	Financial year ended 31-Dec-2019 US$	Financial year ended 31-Dec-2018 US$
Current tax		
Income tax expense for the financial year	(2,273)	(11,054)
Deferred tax		
Origination of temporary differences	-	-
	(2,273)	**(11,054)**

b) Factors affecting current tax charge for the financial year

The reconciliation of current tax on profit on ordinary activities at the standard rate of UK Corporation tax to the Company's actual tax charge is analysed as follows:

	Financial year ended 31-Dec-2019 US$	Financial year ended 31-Dec-2018 US$
Profit on ordinary activities before taxation	11,963	58,182
Tax on profit on ordinary activities at standard UK corporation tax rate of 19%	(2,273)	11,054
Tax charge for the year	**(2,273)**	**11,054**

Notes to the Financial Statements (continued)

6 Finance Lease

	2019 US$	2018 US$
Current	-	-
Non-current	25,671,487	-
	25,671,487	-

The aggregate repayment of the finance lease investment subsequent to financial year end is as follows:

	Minimum lease payments 2019 US	Interest 2019 US$	Present value 2019 US$
Due within one year	3,611,088	1,103,926	2,507,162
Due between two and five years	17,234,957	6,000,384	11,234,573
Due after five years	12,467,099	537,347	11,929,752
	33,313,144	7,641,657	25,671,487

7 Restricted Cash

	2019 US$	2018 US$
Restricted cash	1,091,827	502,422
	1,091,827	**502,422**

Restricted cash represents cash securing the Company's obligations under the head lease agreements. Amounts received from lessees in respect of aircraft subject to certain funding arrangements may be required to be held in segregated accounts to support, amongst other things, interest and principal payments on the related debt facility.

8 Amounts due from Related Parties

	2019 US$	2018 US$
Amounts due from immediate parent under taking	7,791,882	5,284,201
	7,791,882	**5,284,201**

Amounts due to/from group undertakings are unsecured, interest free and repayable on demand.

Avolon Aerospace UK 7 Limited

Notes to the Financial Statements (continued)

9 Net obligation in Finance Lease

	2019 US$	2018 US$
Current	-	-
Non-current	25,158,057	-
	25,158,057	-

The aggregate repayment of the finance lease obligation subsequent to financial year end is as follows:

	Minimum lease payments 2019 US	Interest 2019 US$	Present value 2019 US$
Due within one year	3,538,866	1,081,848	2,457,019
Due between two and five years	16,890,258	5,880,376	11,009,882
Due after five years	12,217,757	526,600	11,691,157
	32,646,881	7,488,824	25,158,057

10 Accrued Maintenance Liabilities

	2019 US$	2018 US$
Opening balance	4,981,687	2,775,142
Additions	2,852,886	2,206,545
At 31 December	**7,834,573**	**4,981,687**

11 Share Capital

	2019 US$	2018 US$
Authorised		
1 ordinary share of GBP1 each	2	2
Issued		
1 ordinary share of GBP1 each	2	2

The holders of ordinary shares are entitled to receive dividends as declared from time to time.

11 Share Capital (continued)

For the purpose of the Company's capital management, capital includes issued capital and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Company's capital management is to maximise the shareholder value.

The Company manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

12 Ultimate and Immediate Parent Undertaking

The immediate parent undertaking is Avolon Aerospace (Funding 7) Limited which is incorporated in the Cayman Islands and has its registered office at C/O Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands

The ultimate controlling party is Bohai Leasing Co., Ltd ("Bohai Leasing"), which is listed on the Shenghen Stock Exchange (SHE000415). HNA Group Co. Limited ("HNA Group") is the controlling entity of Bohai Leasing. HNA Group is a company incorporated in the People's Republic of China.

The smallest group at which consolidated financial statements are prepared is Avolon Aerospace Leasing Limited who have their registered address C/O Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The largest group at which consolidated financial statements are prepared is HNA Holding Group Co Ltd.

13 Related Party Transactions

At 31 December 2019, the Company had amounts receivable from related parties of US$ 7,791,882 (2018: US$ 5,284,201) and had amounts payable to related parties of US$ Nil (2018: US$ Nil).

There have been no transactions with key management personnel during the financial year as the Company has no employees.

The Company leased one aircraft from Avolon Aerospace AOE 132 Limited and paid US$ 3,538,866 (2018: US$ 3,538,866) during the financial year under the terms of the Head Lease agreements. The Company issued one share to Avolon Aerospace Leasing Limited at inception which is fully paid.

14 Financial Risk Management

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company does not have any externally imposed capital requirements.

The risk profile of the Company is such that market, credit, liquidity and other risks relating to the leases held for risk management are borne fully by the arranger.

The Company has exposure to the following risks from its use of financial instruments:

(i) Credit risk;
(ii) Liquidity risk;
(iii) Market risks;
(iv) Operational risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk and the Company's management of capital. Further quantitative disclosures are provided below.

(i) Credit risk

Credit risk is the risk of financial loss to the Company if the counterparty to the lease fails to meet its contractual obligations. The Company has limited exposure to credit risk as its contractual obligations are limited only to lease receipts and payments under the operating leases in place.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

	Carrying value 2019 US$	Maximum exposure 2019 US$	Carrying value 2018 US$	Maximum exposure 2018 US$
Investment in finance lease	25,671,487	25,671,487	-	-
Restricted cash	1,091,827	1,091,827	502,422	502,422
Amounts due from related parties	7,791,882	7,791,882	5,284,201	5,284,201
	34,555,196	34,555,196	5,786,623	5,786,623

Notes to the Financial Statements (continued)

14 Financial Risk Management (continued)

Risk management framework

(ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting obligations arising from its financial liabilities as they fall due.

The ability of the Company to meet its obligations under the Leases will be dependent on the receipt of rental income from the Lessee under the Lease Agreement. Pursuant to the enforcement of the Issuer Security, the Company is not expected to have any other funds available for it to meet its obligations under the Leases, that is, in respect of making any payment to the Owner.

The Company's obligation to the Owner is limited to the net proceeds receivable under the leases.

(iii) Market risks

Market risk is the risk that changes in market prices, such as foreign exchange rate and interest rates will affect the Company's income or the value of its holdings of financial instruments.

The Company is not exposed to foreign exchange risks.

Market risk embodies the potential for both loss and gains and includes currency risk, interest rate risk and price risk.

Currency risk

The Company is not exposed to movements in exchange rates as at 31 December 2019.

Fair values

The term "financial instruments" includes financial assets and financial liabilities. 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.

Fair value of financial assets and liabilities is estimated using quoted market prices for similar instruments and adjusted for differences between the quoted instrument and the instrument being valued. In certain cases, including the loans advanced to borrowers, where there are no ready markets, various techniques have been used to estimate the fair value of the instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Readers of these financial statements are advised to use caution when using the data to evaluate the Company's financial position or to make comparisons with other companies.

The fair value of the Company's financial assets and financial liabilities is equal to their book value.

Avolon Aerospace UK 7 Limited

Notes to the Financial Statements (continued)

14 Financial Risk Management (continued)

Risk management framework

(iii) Market risks (continued)

Fair values (continued)

The following table gives details of the carrying amounts and fair values of financial instruments for the financial year ended 31 December 2019 and 2018:

31 December 2019	Amortised Cost	Other Financial Liabilities	Carrying amount	Fair values
	US$	US$	US$	US$
Financial assets				
Finance lease investment	25,671,487	-	25,671,487	25,671,487
Restricted cash	1,091,827	-	1,091,827	1,091,827
Amounts due from related parties	7,791,882	-	7,791,882	7,791,882
	34,555,196	-	34,555,196	34,555,196
Financial liabilities				
Finance lease obligation	-	25,158,057	25,158,057	25,158,057
Trade and other payables	-	-	-	-
Security deposit	-	902,772	902,772	902,772
	-	26,060,829	26,060,829	26,060,829

31 December 2018	Amortised Cost	Other Financial Liabilities	Carrying amount	Fair values
	US$	US$	US$	US$
Restricted cash	502,422	-	502,422	502,422
Amounts due from related parties	5,284,201	-	5,284,201	5,284,201
	5,786,623	-	5,786,623	5,786,623
Financial liabilities				
Trade and other payables	-	905,980	905,980	905,980
	-	905,980	905,980	905,980

Other than restricted cash which falls within level 1, the financial instruments fall within level 2 as at 31 December 2019 and 2018. There were no movements in levels of financial instruments during the financial year ended 31 December 2019.

Avolon Aerospace UK 7 Limited

Notes to the Financial Statements (continued)

14 Financial Risk Management (continued)

Risk management framework

(iv) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks are inherent in all business activity.

The Company was incorporated with the purpose of engaging in those activities outlined in the preceding paragraphs. All administration functions have been outsourced by the Company to Maples Fiduciary Services (UK) Limited who has an operational risk management function that assist and advise line management on specific operational risks.

Capital Management

The Company's transactions are designed to enable the Company to pay its liabilities as they fall due only, without realising a significant return on capital. This is the objective of the Company's capital management policy. As the level of lease income receivable and lease expense payable were established on incorporation of the Company, there is little need for the monitoring of the return on capital. There were no changes in the Company's approach to capital management during the financial year. The Company is not subject to externally imposed capital requirements.

15 Commitments and Contingent Liabilities

(a) Capital commitments

At 31 December 2019 the Company had no capital commitments (2018: None).

(b) Contingent liabilities

There were no contingent liabilities that require disclosure in the financial statements (2018: None).

16 Subsequent events

The outbreak of COVID-19 has led to travel restrictions and cancellation of flights impacting a number of airline customers across the globe. While it is difficult to predict the extent of the impact from COVID-19, the outbreak and the related decreased demand for aircraft travel is significantly impacting the Company's customers, being the airlines, which could lead to their inability to meet their lease payment obligations to the Company, lead to cancellations and no extension of their lease contracts with us which could negatively affect our financial condition, cash flow and results from operating activities.

Due to the current challenging environment, the Directors have considered the impact on Avolon Holdings Limited, the Parent undertaking, and its subsidiaries, in the context of the Company's use of the going concern basis of preparation at the date of signing of these financial statements by evaluating all cash inflows and outflows of Avolon Holdings Limited and its subsidiaries, over the coming year under the following assumptions;

Notes to the Financial Statements (continued)

16 Subsequent Events (continued)

- Current unrestricted cash on hand balance available,
- Additional liquidity from available undrawn debt facilities,
- Deferral of all contractually committed lease cash inflows for the next 9 months;
- Forecasted cash outflows for capital expenditure for the next 12 months; and
- Forecasted cash outflows for all contractual debt and lease obligations and selling, general and administrative expenses for the next 12 months

Based on this analysis and all information available at present, the Directors believe that the Company has sufficient liquidity to meet its obligations as they fall due and that it continues to be appropriate to prepare the financial statements on a Going Concern basis preparation

17 Approval of Financial Statements

The Board of Directors approved and authorised these financial statements on 31st July 2020

Avolon Investments S.à.r.l.
Société à Responsabilité Limitée

CONSOLIDATED FINANCIAL STATEMENTS
and
Independent auditor's report
as of
31 December 2019

2 rue Hildegard von Bingen
L-1282 Luxembourg
R.C.S. Luxembourg B 153.147.

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Directors and other information

Directors	Edward Riley (resigned September 25 2019) Daniel Coleman Byrne (appointed September 25 2019) Philippe Delrée (resigned September 25 2019) Michèle Carré (appointed September 25 2019) Sandra Legrand
Registered office	2 rue Hildegard von Bingen L-1282 Luxembourg
Independent auditor	EY 35E Avenue John F Kennedy L- 1855 Luxembourg
Banker	J.P. Morgan Chase Bank, N.A., New York 4 New York Plaza, Floor 15 NY, NY 10004 USA
Solicitors	Clifford Chance LLP 10 Upper Bank Street Canary Wharf, London E14 5JJ United Kingdom Maples & Calder 75 St. Stephens Green Dublin 2 Ireland Elvinger, Hoss & Pruseen 2 Place Winston Churchill Luxembourg L-1340

Consolidated Management report

The Management present their consolidated management report together with the consolidated financial statements of Avolon Investments S.à.r.l. (the "Company") and its subsidiaries together and herein after "the Group" for the year ended 31 December 2019. The Company's registered office is 2 rue Hildegard von Bingen, L-1282, Luxembourg. The Company also comprises a Hong Kong Branch office whose registered office is Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

Principal activities, business review and future developments

The principal activities of the Group are focused on acquiring, leasing, managing and selling commercial aircraft and acting as servicer for third party aircraft owners.

During the year, the operational highlights of the Group are as follows:

Purchases: The Group purchased 28 aircraft during the year (Year ended 31 December 2018: 19).

Sales: The Group sold 21 aircraft during the year (Year ended 31 December 2018: 31).

Leasing: The Group's lease revenues amounted to $901.8m for the year (Year ended 31 December 2018: US$841.8m), and the Directors are confident that the Group will continue to increase its revenues in line with the owned aircraft fleet, which was 157 aircraft at year end (31 December 2018: 150 aircraft). See note 4 for further information.

Other Revenue: The Group also acts as servicer for fellow subsidiaries of AHL. In respect of these services provided, the Group earned US$181.2m (Year ended 31 December 2018: US$205.1m). See note 5 for further information.

Financing: At 31 December 2019, the Group had borrowed US$3,667m in secured and unsecured long term borrowings (31 December 2018: US$4,472m) and US$340m (31 December 2018: US$467m) in secured and unsecured short term borrowings. The Group has continued to utilise its existing revolving warehouse and unsecured facilities. See note 20 for further information.

Financing Commitments: At 31 December 2019, the Group had available undrawn debt facilities from a range of financiers for an additional US$4,057m of debt funding (31 December 2018: US$3,702m), US$3,152m of which relate to commitments of unsecured debt financing (31 December 2018: US$1,940m). See note 20 for further information.

Purchasing Commitments: At 31 December 2019, the Group had entered into binding contracts to purchase a further 337 aircraft (31 December 2018: 339), which are scheduled to be delivered between 2020 and 2026 (31 December 2018: 2019 and 2025). See note 29 for further information.

Equity: The Company is a subsidiary of Avolon Holdings Limited ("AHL"). During the year ended 31 December 2019, Global Aviation Leasing Co., Ltd ("GAL"), transferred a 70% shareholding in AHL to Global Aircraft Leasing Co., Ltd ("GALC"), a wholly owned subsidiary of GAL. At 31 December 2019, AHL is a 70% owned, indirect subsidiary of Bohai through Global Aircraft Leasing Co., Ltd ("GALC") and 30% owned by ORIX Aviation. HNA Group Co., Ltd. ("HNA Group") is the controlling entity of Bohai thus, through these interests, HNA Group is the Company's ultimate controlling shareholder.

The Management intends to maintain the success and growth of the Group going forward and continue to evaluate new investment and trading opportunities. The Group ended the year with US$611m (31 December 2018: US$565m) of unrestricted cash on hand, restricted cash of US$79m (31 December 2018: US$124m) and total undrawn debt commitments of US$4,057m (31 December 2018: US$3,702m).

During the year ended 31 December 2019, aviation authorities grounded the Boeing 737 MAX aircraft restricting it from commercial service after two well-publicized aircraft accidents. The Group have 8 Boeing 737 MAX 8 aircraft under lease and have contracts to purchase an additional 103 Boeing 737 MAX Aircraft. There is uncertainty around the delivery dates of the Boeing 737 MAX aircraft that the Group have on order. We have assessed the 8 Boeing 737 MAX aircraft that are under lease and our pre-delivery payments for our committed Boeing 737 MAX aircraft for impairment by comparing its carrying amount to the higher of value in use and fair value less cost to sell. No impairment was recorded. We continue to monitor the Boeing 737 MAX return to service and will work to establish appropriate delivery dates for the undelivered aircraft.

Consolidated Management report (continued)

Summary of financial results

The Group made a profit after tax of US$290m for the year (Year ended 31 December 2018: US$216m).

Principal risks and uncertainties and risk management

The Board of Avolon Aerospace Leasing Limited (a indirect subsidiary of the Company) has formed a number of sub committees comprising both directors and management to appropriately monitor and evaluate the key risks of the business. The risk management committee is responsible for overseeing the Company's three executive risk committees: the portfolio risk committee, capital risk committee and operations risk committee. These executive risk committees are responsible for, among other things, monitoring counterparty credit risk, portfolio risk factors, adherence to capital allocation targets, maintenance exposures and lease expiry profiles; recommending liability and hedging strategies to our Board; reviewing committed pipeline risk, capacity requirements, availability and cost of financing and capital markets activity; overseeing rating agency relationships; reviewing and approving the development of, and any subsequent modifications to, the core planning and analysis tools used by the business; and reviewing the thresholds of transactions for which the investment committee and the treasury and financing committee have responsibility. These risks include:

a) Asset risk

The Group's primary business is the operating leasing of commercial aircraft. Operating leases are generally in the range of 5 to 12 years, and as a result the Group bears the risk of re-leasing or selling the aircraft. Should demand for aircraft decrease significantly for an extended period, and/or the value of the aircraft in the fleet reduces the Group may incur impairment charges.

This risk is mitigated by the Group's strategy of investing in modern and fuel efficient aircraft in operation with significant numbers of established operators. These assets have the most stable values. In addition, the Group employs personnel with significant experience of managing similar portfolios of aviation assets. The Group has in-house capability and experience in remarketing and selling aircraft as may be required and has successfully sold a significant portion of its fleet at a gain in the past 5 years.

The Group undertakes a periodic review of the carrying values of its assets.

b) Currency risk

The Group's functional and reporting currency is US Dollar, and all of its leases and loans are US Dollar denominated. The Group has some exposure to currency movement in that it incurs operating expenses in non US Dollar currencies, including Euro, Sterling, Australian Dollar, Singapore Dollar, Hong Kong Dollar, Japanese Yen, Swiss Franc and Norwegian Kronor.

c) Interest rate risk

A number of the Group's aircraft leases are on a fixed rental basis. The Group seeks to minimise its exposure to interest rates by either availing of fixed rate funding or using interest rate derivative contracts. A number of the Group's leases have rentals linked to floating interest rates, and so an increase in interest expense due to higher interest rates is expected to be offset by increased rentals. The Group also has some exposure to increases in the costs of its lenders funding in the inter bank markets.

d) Credit risk

The nature of the Group's business undertakings expose the Group to credit risk on its counterparties. The Group has a formal quarterly risk review process, focusing both on airline lessees and the credit risk the Group bears on its borrowings and financial assets. The Group has a dedicated credit risk management team in place which reviews the credit risk of its counterparts.

Each new lessee is assessed prior to the Group entering into commitments, and the assessment is considered by the Group's Board as part of the investment approval decision. In addition, many of the Group's leases contain credit risk protection via security deposits in the form of cash and letter of credit deposits. Credit risk is monitored and managed by the business on an ongoing basis, with regular review of credit performance, receivable monitoring and entering into deposits with generally "A" rated financial institutions.

The Group also has significant unrestricted and restricted cash balances included in its financial assets, and these deposits and other financial instruments give rise to credit risk on amounts due from counterparties. Credit risk is managed by limiting the aggregate amount and duration of exposure to any one counterparty and entering into deposits with generally "A" rated financial institutions. The Group typically does not enter into deposits with a duration of more than 3 months.

Consolidated Management report (continued)

Principal risks and uncertainties and risk management (continued)

e) Liquidity risk

The Group has funded a significant part of its operations with debt financing. The ability of the Group to continue to operate is dependent upon its ability to meet its payment obligations and adhere to covenant requirements under the respective loan agreements, which are dependent, among other things, upon the factors outlined above.

As outlined in note 20, the Group has principal repayments due under its existing loans from external parties which fall due during the next 12 month period. These will be financed via operational cash flows (rental and trading activities), new debt financing and additional equity drawdowns as may be required. As a result of its growth strategy, at 31 December 2018, the Group had committed to purchase 339 aircraft (31 December 2017: 148), scheduled to deliver from 2019 based upon fixed price agreements which are adjusted for inflation and price escalation formulas. Capital commitments at 31 December 2018 amounted to approximately US$19.0bn (31 December 2017: US$9.6bn). The Directors anticipate that a significant portion of the aggregate purchase price for the purchase of aircraft will be funded by incurring additional debt. The exact amount of the indebtedness to be incurred will depend upon the actual purchase price of the aircraft, which can vary due to a number of factors, including inflation, manufacturer discounts and the percentage of the purchase price of the aircraft which must be financed.

If the Group cannot meet its obligations or if it breaches certain covenants under the various debt arrangements, it may be subject to contract breach damages suits, it may be required to restrict or apply all cash flows from aircraft pledged as collateral for certain debt facilities to meet principal and interest payments and/or to paydown such debt facilities on an accelerated basis, and may even be unable to continue to operate on a going concern basis. Based on all information available at present, the directors believe that the Group has sufficient liquidity to meet its obligations as they fall due and that it continues to be appropriate to prepare the financial statements on a Going Concern basis of preparation.

f) Capital management

Although the Group itself is not regulated it aims to maintain capital resources commensurate with the nature, scale and risk profile of its business. It regards its capital as the total equity as shown on the consolidated statement of financial position.

Internal control and risk management systems

A financial reporting process is in place which ensures that the consolidated financial statements are prepared to the correct standard which includes preparing monthly reconciliations of all account balances and completing an annual IFRS disclosure checklist.

Repurchase and cancellation of shares

During the year to 31 December 2018 1,209,657 Class D shares with a par value of US$0.1 each were repurchased for a total amount of US$1.2bn and cancelled. There have been no repurchases of shares for the year ended 2019.

Capital Contribution

During the year to 31 December 2019 the group received a capital contribution of $1.2bn (2018: US$Nil).

Consolidated Management report (continued)

Subsequent events
The outbreak of COVID-19 has led to travel restrictions and cancellation of flights impacting a number of our customers across the globe. While it is difficult to predict the extent of the impact from COVID-19, the outbreak and the related decreased demand for aircraft travel is significantly impacting our customers, being the airlines, which could lead to their inability to meet their lease payment obligations to us, lead to cancellations and no extension of their lease contracts with us which could negatively affect our financial condition, cash flow and results from operating activities.

Due to the current challenging environment, the Directors have considered the impact on the Group's use of the going concern basis of preparation at the date of signing of these financial statements by evaluating all cash inflows and outflows for the Group over the coming year under the following assumptions;

- Current unrestricted cash on hand balance available,
- Additional liquidity from available undrawn debt facilities,
- Deferral of all contractually committed lease cash inflows for the next 9 months;
- Forecasted cash outflows for capital expenditure for the next 12 months; and
- Forecasted cash outflows for all contractual debt and lease obligations and selling, general and administrative expenses for the next 12 months

Based on this analysis and all information available at present, the Directors believe that the Group has sufficient liquidity to meet its obligations as they fall due and that it continues to be appropriate to prepare the financial statements on a Going Concern basis of preparation.

There were no other significant events subsequent to 31 December 2019 that require amendment to or disclosure in the consolidated financial statements.

On behalf of the board

Michèle Carré

Daniel Coleman Byrne

Date: 27 March 2020

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Independent auditor's report

To the Board of Managers of
Avolon Investments S.à r.l.
2 rue Hildegard von Bingen
L-1282 Luxembourg

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Avolon Investments S.à r.l. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the Law of 23 July 2016 on the audit profession (the "Law of 23 July 2016") and with International Standards on Auditing ("ISAs") as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" ("CSSF"). Our responsibilities under the Law of 23 July 2016 and ISAs are further described in the "responsibilities of the "réviseur d'entreprises agréé" for the audit of the consolidated financial statements" section of our report. We are also independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 31 of the consolidated financial statements, which describes the significant effects of Covid-19 on the airline industry and more particularly on the Group's activities. Our opinion is not modified in respect of this matter.

Other information

The Board of Managers is responsible for the other information. The other information comprises the information included in the consolidated management report but does not include the consolidated financial statements and our report of the "réviseur d'entreprises agréé" thereon.

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 this fact. We have nothing to report in this regard.

Responsibilities of the Board of Managers for the consolidated financial statements

The Board of Managers is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRS as adopted by the European Union, and for such internal control as the Board of Managers 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, the Board of Managers 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 the Board of Managers either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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Responsibilities of the "réviseur d'entreprises agréé" 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 a report of the "réviseur d'entreprises agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, 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 the Board of Managers.

- Conclude on the appropriateness of Board of Managers' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the "réviseur d'entreprises agréé" 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 report of the "réviseur d'entreprises agréé". However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and 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.

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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.

Report on other legal and regulatory requirements

The consolidated management report is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

Ernst & Young
Société anonyme
Cabinet de révision agréé

Olivier Lemaire

Luxembourg, 21 April 2020

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2019

	Note	Year ended 31 December 2019 US$'000	Year ended 31 December 2018 US$'000
Revenues			
Lease revenue	4	901,825	841,782
Other revenue	5	243,710	205,139
Total Revenues		1,145,535	1,046,921
Gain on disposal of property, plant and equipment		50,429	17,996
Expenses			
Depreciation and amortisation	11, 12	(314,557)	(301,274)
Impairment	11, 26	(16,823)	(21,172)
General and administrative expenses	6	(219,920)	(179,302)
Aircraft maintenance expense		(1,623)	(2,991)
Profit from operating activities		643,041	560,178
Finance income	9	312,375	181,356
Finance expenses	9	(656,350)	(513,299)
Net finance costs		(343,975)	(331,943)
Share of profits from equity-accounted investees, net of tax	8	714	1,367
Profit before income tax		299,780	229,602
Income tax expense	10	(10,779)	(13,625)
Profit for the year		289,001	215,977
Other comprehensive loss	25	(10,416)	(555)
Total comprehensive income for the year		278,585	215,422

All activities derive from continuing operations.

The accompanying notes on pages 14 to 71 form an integral part of these consolidated financial statements.

On behalf of the board

Michèle Carré **Daniel Coleman Byrne**

Date: 27 March 2020

Consolidated statement of financial position

As at 31 December 2019

	Note	31 December 2019 US$'000	31 December 2018 US$'000
Property, plant and equipment			
- Aircraft	11	7,958,081	7,052,957
- Maintenance right asset	11	17,891	17,891
- Other assets	11	17,841	20,321
Right-of-use assets	12	67,159	-
Pre-delivery payments (PDP's)	15	1,639,345	1,426,740
Derivative financial assets	25	2,873	6,089
Other assets	14	161,346	132,685
Investments in equity financial assets at FVTPL	25	8,295	8,295
Investment in equity-accounted investees	13	15,167	15,850
Amount due from related parties	28	4,347,683	5,748,207
Total non-current assets		**14,235,681**	**14,429,035**
Unrestricted cash	16	610,673	565,379
Restricted cash	16	78,801	124,226
Assets held for sale	17	15,435	-
Other assets	14	37,550	30,553
Trade and other receivables	18	83,694	35,565
Prepayments		2,618	2,930
Derivative financial assets	25	71	-
Amounts due from related parties	28	568,771	250,515
Total current assets		**1,397,613**	**1,010,168**
Total assets		**15,633,294**	**15,439,203**
Liabilities			
Loans and borrowings - third party	20	3,609,070	4,413,173
Amounts due to related parties	28	8,114,372	8,541,239
Lessee security deposits	21	110,455	128,784
Accrued maintenance liabilities	22	362,452	321,697
Lease liabilities	12	69,843	-
Deferred tax liabilities	23	49,732	39,562
Derivative financial liabilities	25	12,672	1,646
Trade and other payables	24	6,242	4,040
Total non-current liabilities		**12,334,838**	**13,450,141**
Current tax liabilities		-	-
Loans and borrowings - third party	20	328,485	445,508
Amounts due to related parties	28	-	71,921
Lessee security deposits	21	3,141	7,284
Accrued maintenance liabilities	22	16,503	25,615
Lease liabilities	12	1,077	-
Trade and other payables	24	148,729	132,164
Total current liabilities		**497,935**	**682,492**
Total liabilities		**12,832,773**	**14,132,633**
Equity			
Share capital	19	109	109
Share premium	19	21,339	21,339
Capital Contribution	19	1,215,366	-
Other reserves	19	(10,011)	405
Retained earnings	19	1,573,718	1,284,717
Total equity		**2,800,521**	**1,306,570**
Total equity and liabilities		**15,633,294**	**15,439,203**

The accompanying notes on pages 14 to 71 form an integral part of these consolidated financial statements.

On behalf of the board

Michèle Carré **Daniel Coleman Byrne**

Date: 27 March 2020

Consolidated statement of changes in equity

For the year ended 31 December 2019

	Note	Share capital US$'000	Share premium US$'000	Other reserves US$'000	Retained earnings US$'000	Capital contribution US$'000	Total equity US$'000
At 1 January 2019		**109**	**21,339**	**405**	**1,284,717**	-	**1,306,570**
Total comprehensive income for the year							
- Profit for the year		-	-	-	289,001	-	289,001
- Other comprehensive loss		-	-	(10,416)	-	-	(10,416)
- Capital contribution	19					1,215,366	1,215,366
At 31 December 2019		**109**	**21,339**	**(10,011)**	**1,573,718**	**1,215,366**	**2,800,521**
At 1 January 2018		**121**	**1,236,693**	**960**	**1,068,740**	-	**2,306,514**
Total comprehensive loss for the year							
- Profit for the year		-	-	-	215,977	-	215,977
- Other comprehensive loss		-	-	(555)	-	-	(555)
- Redemption of class D shares	19	(12)	(1,215,354)	-	-	-	(1,215,366)
At 31 December 2018		**109**	**21,339**	**405**	**1,284,717**	-	**1,306,570**

The accompanying notes on pages 14 to 71 form an integral part of these consolidated financial statements.

On behalf of the board

Michèle Carré

Date: 27 March 2020

Daniel Coleman Byrne

Consolidated statement of cash flows

For the year ended 31 December 2019

	Note	Year ended 31 December 2019 US$'000	Year ended 31 December 2018 US$'000
Cash flows from operating activities			
Profit for the year before tax		299,780	229,602
Adjustments for:			
Depreciation and amortisation		355,041	326,201
Impairment		16,823	21,172
Finance income		(312,375)	(181,356)
Profit from investment in equity-accounted investees		(714)	(1,367)
Loss allowance/Provision for bad debt		641	1,133
Debt fee amortisation		33,426	32,841
Interest expense		614,647	475,453
Gain on disposal of property, plant and equipment		(50,429)	(17,996)
Change in trade and other receivables, other assets and prepayments		(135,853)	(86,757)
Change in trade and other payables		16,927	22,292
Change in security deposits and liabilities held for sale		(22,472)	41,676
Change in accrued maintenance liabilities		31,643	(7,610)
Cash generated from operating activities		**847,085**	**855,284**
Income tax paid		(1,874)	(1,722)
Net cash from operating activities		**845,211**	**853,562**
Cash flows used in investing activities			
Acquisition of property, plant and equipment		(1,622,601)	(1,195,584)
Proceeds from disposal of property, plant and equipment		1,047,687	1,017,390
Amounts advanced to related parties		(1,456,039)	(3,251,033)
Pre-delivery payments in respect of aircraft and engines		(756,649)	(359,836)
Pre-delivery payments transferred from related parties		-	(636,012)
Distribution received from investment in equity-accounted investees		-	2,835
Investment in equity-accounted investees		(67)	(17,488)
Investment in debt financial assets at FVOCI		-	(5,804)
Investment in equity financial assets at FVTPL		-	(9,909)
Distribution received from investment in equity financial assets at FVTPL		-	1,614
Loan repayments received from related parties		2,538,307	-
Loan interest received from related parties		291,264	-
Interest and investment income received		21,111	24,612
Net cash used in investing activities		**63,013**	**(4,429,215)**
Cash flows from financing activities			
Increase in restricted cash		45,425	122,534
Principal received from related parties		3,553,649	4,820,321
Amounts repaid to related parties		(4,052,437)	-
Proceeds from long term borrowings	20	1,039,982	980,976
Repayment of long term borrowings	20	(1,967,028)	(1,473,107)
Interest paid		(689,168)	(220,348)
Acquisition of interest rate derivatives		0	(78)
Settlement on proceeds from disposal of interest rate derivatives		10,819	4,855
Cancellation of class D ordinary shares		-	(1,215,366)
Capital contribution received		1,215,366	-
Capitalised debt fees	20	(19,538)	(37,294)
Net cash used in financing activities		**(862,930)**	**2,982,493**
Net increase/(decrease) in cash and cash equivalents		**45,294**	**(593,160)**
Cash and cash equivalents at 1 January		565,379	1,158,539
Cash and cash equivalents at 31 December		**610,673**	**565,379**

The accompanying notes on pages 14 to 71 form an integral part of these consolidated financial statements.

On behalf of the board

Michèle Carré **Daniel Coleman Byrne**

Date: 27 March 2020

Notes to the consolidated financial statements

1. Reporting entity

Avolon Investments S.à r.l. (the "Company") is a Company incorporated and domiciled in Luxembourg. The address of the Company's registered office is 2 rue Hildegard von Bingen, L-1282, Luxembourg. The consolidated financial statements of the Company as at and for the year ended 31 December 2019 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in equity-accounted investees. The Company is a subsidiary of Avolon Holdings Limited ("AHL").

The Group comprising of the Company and its subsidiaries and the Company's investment in unconsolidated equity investees is a global aircraft leasing company focused on acquiring, leasing, managing and selling commercial aircraft to various airlines and lessees and acting as servicer for third party aircraft owners.

2. Significant accounting policies

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the IASB (IFRSs) as adopted by the European Union. They have been prepared under the historical cost convention as modified by the valuation of certain financial assets and liabilities (including derivative financial instruments) at fair value through the consolidated statement of comprehensive income or through equity. IFRSs applied by the Group in the preparation of these consolidated financial statements are those that were effective at 31 December 2019.

The preparation of financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires Group management to exercise judgement in applying the Group's accounting policies. The areas where significant judgements and estimates have been made in preparing the financial statements and their effect are disclosed in note 2(d).

The Directors have considered the adequacy of the Company's and Group's funding, cash flows and profitability for at least the next 12 months and are satisfied that the financial statements are prepared on a going concern basis. Please refer to note 31 for further details.

(b) New and amended accounting standards adopted

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2019:

1) IFRS 16: Leases
2) Amendments to IAS 28 Long-term interests in associates and joint ventures
3) IFRIC Interpretation 23: Uncertainty over Income tax treatments
4) Annual Improvements 2015-2017 Cycle

The nature and effects of the changes are explained below.

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

Notes to the consolidated financial statements

2. Significant accounting policies (continued)

(b) New and amended accounting standards adopted (continued)

1) IFRS 16: ***Leases (Continued)***

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

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

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

Transition to IFRS 16
As permitted by the transitional provisions of IFRS 16, the Group has elected to apply the modified retrospective approach under the standard, not restating comparative figures but recognising the effect of initially applying IFRS 16 at 1 January 2019 by recognising the right-of-use asset and lease liability on that date. The Group has reviewed the impact of IFRS 16 and determined that the impact is the recognition of a right-of-use asset of US$91.2m (net of discounts of US$1.5m) and lease liability of US$92.7m on the Consolidated Statement of Financial Position at 1 January 2019 and the recognition of a US$8.1m charge to the consolidated statement of profit or loss for the year ended 31 December 2019 with respect to office lease agreements the Group has entered into as at 1 January 2019. There is no impact to the Group's retained earnings at 1 January 2019. See note 2 (y) and note 12 for further information.

The following reconciliation to the opening balance for lease liabilities at 1 January 2019 is based upon the operating lease obligations of the Group as at 31 December 2018. The lease liabilities were discounted using the weighted average cost of debt of the Group as at 1 January 2019 of 4.5%. A single discount rate was applied to all operating leases due to the similar nature of the leases.

	US$'000
Operating lease obligations at 31 December 2018	141,754
Relief option on short term leases and leases of low-value assets	(737)
Gross lease liabilities at 1 January 2019	**141,017**
Discounting	(48,364)
IFRS 16 transition adjustment at 1 January 2019	**92,653**

The Group has elected to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Group has elected to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment (i.e., personal computers, printing and photocopying machines) that are considered of low value.

2) Amendments to IAS 28: ***Long-term interests in associates and joint ventures***
The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). The Group has reviewed the impact of the initial application of Amendments to IAS 28 and determined that there is no impact for the Group.

3) IFRIC Interpretation 23: ***Uncertainty over income tax treatments***
The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Group has reviewed the impact of the initial application of IFRIC Interpretation 23 and determined that there is no impact for the Group.

Notes to the consolidated financial statements

2. Significant accounting policies (continued)

(b) New and amended accounting standards adopted (continued)

4) Annual Improvements 2015-2017 Cycle (issued in December 2017)

These improvements include:

IFRS 3 *Business Combinations*
The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

IFRS 11 *Joint Arrangements*
A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

IAS 12 *Income Taxes*
The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

IAS 23 *Borrowing Costs*
The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

The Group has reviewed the impact of the initial application of these amendments and has determined that there is no impact for the Group.

(c) New standards and interpretations not yet adopted

Several new standards, amendments to standards and interpretations are effective for annual periods beginning 1 January 2020 and have not been applied in preparing the Group financial statements. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

The Group does not plan to adopt these standards early:

Description	**Effective date (period beginning)**
Amendments to IFRS 3: *Business Combinations*	1 January 2020
Amendments to IAS 1 and IAS 8: *Definition of Material*	1 January 2020
Amendments to References to Conceptual Framework in IFRS Standards	1 January 2020
Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39 and IFRS 7	1 January 2020

The Group is still in the process of reviewing the impact of the upcoming standards to determine their impact but do not anticipate that the application of these amendments will have a significant impact on the Group's consolidated financial statements.

Amendments to IFRS 3: *Business Combinations*
'Definition of a Business (Amendments to IFRS 3)' is aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020.

The amendments in Definition of a Business (Amendments to IFRS 3) are changes to Appendix A Defined terms, the application guidance, and the illustrative examples of IFRS 3 only. They:

- clarify that to be considered a business, an acquired 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 outputs;

Notes to the consolidated financial statements

2. Significant accounting policies (continued)

(c) New standards and interpretations not yet adopted (continued)

Amendments to IFRS 3: *Business Combinations* (continued)

- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs;
- add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and
- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

The Group does not anticipate any significant impact on the consolidated financial statements as a result of the amendments.

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

'Definition of Material (Amendments to IAS 1 and IAS 8)' is intended to clarify the definition of 'material' and to align the definition used in the Conceptual Framework and the standards themselves. The amendments are effective annual reporting periods beginning on or after 1 January 2020.

The changes in Definition of Material (Amendments to IAS 1 and IAS 8) all relate to a revised definition of 'material' which is quoted below from the final amendments:

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The Group does not anticipate any significant impact on the consolidated financial statements as a result of the amendments.

Amendments to References to Conceptual Framework in IFRS Standards

Amendments to References to the Conceptual Framework in IFRS Standards contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASC framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2018) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised Conceptual Framework. The amendments, where they actually are updates, are effective for annual periods beginning on or after 1 January 2020.

The Group does not anticipate any significant impact on the consolidated financial statements as a result of the amendments.

Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39 and IFRS 7

Interest Rate Benchmark Reform contains amendments to IFRS 9, IAS 39 and IFRS 7. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR). 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.

The Group does not anticipate any significant impact on the consolidated financial statements as a result of the amendments.

(d) Estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Underlying assumptions are reviewed on an ongoing basis.

Notes to the consolidated financial statements

2. Significant accounting policies (continued)

(d) Estimates and judgements (continued)

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the consolidated financial statements are described in the following notes:

Note 11 – Property, plant and equipment - key assumptions around the underlying recoverable amount, residual values and useful economic lives;
Note 22 – Accrued maintenance liabilities - key assumptions about the likelihood, timing and cost of future maintenance events;
Note 23 – Deferred tax assets and liabilities- key judgement about the availability of future taxable profits against which carry forward tax losses can be used;
Note 26 – Financial risk management – key judgement about risk of default and expected loss rates; and
Note 29 – Commitments and contingent liabilities - key assumptions about the likelihood and magnitude of an outflow of resources.

(e) Functional and presentation currency

These financial statements are presented in United States Dollars ("US$"), which is the functional currency of the Company and all the companies of the Group. All financial information presented in US$ has been rounded to the nearest thousand. The Directors of the Company believe that US$ most faithfully represents the economic effects of the underlying transactions, events and conditions.

(f) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary companies up to 31 December 2019. "Subsidiaries" are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has the right to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are consolidated from the date on which control is transferred to the Group until the date that control ceases. The purchase method of accounting is used by the Group to account for the acquisition of subsidiary undertakings. All intercompany profits, transactions and account balances have been eliminated on consolidation.

Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the Group consolidated financial statements. Unrealised gains arising from trading transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(g) Maintenance right assets

For maintenance right asset there are two types detailed below, End of Lease ('EOL') leases and Cash Maintenance ('Cash MR') leases.

EOL Leases

Under EOL Leases, the lessee is obligated to comply with certain return conditions at redelivery which require the lessee to perform lease end maintenance work or make cash compensation payments at the end of the lease to bring the aircraft into a specified maintenance condition. Maintenance right assets in EOL Leases represent the difference in value between the contractual right to receive an aircraft in an improved maintenance condition together with EOL cash compensation as compared to the maintenance condition on the acquisition date. Maintenance right liabilities exist in EOL Leases if, on the acquisition date, the maintenance condition of the aircraft is greater than the contractual return condition in the lease and the Group is required to pay the lessee in cash for the improved maintenance condition. Maintenance right assets and liabilities, net are recorded as a separate component in property, plant and equipment on the Consolidated Statement of Financial Position. See note 14 for further information.

When the Group has recorded maintenance right assets with respect to EOL Leases, the following accounting scenarios exist: (i) the aircraft is returned at lease expiry in the contractually specified maintenance condition without any cash payment to the Group by the lessee, an aircraft improvement is recorded to the extent the improvement is substantiated and deemed to meet the Group's capitalisation policy and any remaining maintenance right asset is then fully amortised and (ii) the lessee elects to partially pay the Group cash compensation at lease expiry, an aircraft improvement is recorded to the extent the improvement is substantiated and deemed to meet the Group's capitalisation policy, the maintenance right asset is then amortised and any excess is recognised as end of lease income or expense consistent with the Group's existing policy.

Notes to the consolidated financial statements

2. Significant accounting policies (continued)

(g) Maintenance right assets (continued)

Any aircraft improvement will be depreciated over the remaining useful life of the aircraft. When the Group has recorded maintenance right liabilities with respect to EOL Leases, the following accounting scenarios exist: (i) the aircraft is returned at lease expiry in the contractually specified maintenance condition without any cash payment by the Group to the lessee, the maintenance right liability is amortised at lease expiry and any end of lease income is recognised and (ii) the Group pays the lessee cash compensation at lease expiry, the maintenance right liability is amortised and any difference is recognised as end of lease income.

Cash MR Leases

Under Cash MR Leases, the lessee is required to make periodic payments to the Group for maintenance based upon usage of the aircraft. When qualifying major maintenance is performed during the lease term, the Group is required to reimburse the lessee for qualifying costs associated with such maintenance. At the end of lease, the Group is entitled to retain any cash receipts in excess of the required reimbursements to the lessee. Maintenance right assets in Cash MR Leases represent the lessee's obligation to perform maintenance on the aircraft during the lease term. The aircraft is improved by the performance of qualifying major maintenance paid for by the lessee who is reimbursed by the Group from the periodic maintenance payments that it receives. Maintenance right assets, net will be recorded in property, plant and equipment on the Consolidated Statement of Financial Position.

Where the Group has recorded maintenance right assets with respect to Cash MR Leases and when the Group has reimbursed the lessee for the performance of qualifying major maintenance, the maintenance right asset is derecognised and an aircraft improvement is recorded. Under Cash MR Leases, the Group does not record a maintenance right liability because it has no obligation to make payments to the lessee, beyond reimbursement of maintenance payment liabilities or payment of lease incentive obligations, which are already recorded in the Group's financial statements.

(h) Financial instruments

The Group's financial asset categories are financial assets at amortised cost, investments in debt instruments at FVOCI and financial instruments at fair value through profit and loss. Financial assets at amortised cost comprise, "trade and other receivables", "amounts due from related parties", "unrestricted cash" and "restricted cash" in the Consolidated Statement of Financial Position. Financial instruments at fair value through profit or loss or other comprehensive income/loss comprise "investments in equity instruments at FVTPL", "investments in debt instruments at FVOCI", and "derivative financial assets" in the Consolidated Statement of Financial Position.

The Group's financial liabilities are all categorised as financial liabilities measured at amortised cost and financial liabilities at fair value through profit or loss or financial liabilities at FVOCI. Financial liabilities measured at amortised cost comprises "loans and borrowings", "amounts due to related parties", "trade and other payables", "lessee security deposits" and "accrued maintenance liabilities" in the Consolidated Statement of Financial Position. Financial liabilities comprising of "derivative financial liabilities" are measured at fair value through profit and loss or fair value through OCI.

1) Financial assets

Initial recognition and measurement
Financial assets are classified at initial recognition, and subsequently measured at, amortised cost, fair value through Other Comprehensive Income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. The Group's trade receivables do not contain a significant financing component and as such are measured at the transaction price.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Notes to the consolidated financial statements

2. Significant accounting policies (continued)

(h) Financial instruments (continued)

1) Financial assets (continued)

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- financial assets at amortised cost
- financial assets at fair value through OCI with recycling of cumulative gains and losses
- financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition
- financial assets at fair value through profit or loss

Financial assets at amortised cost
The Group measures financial assets at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost are trade and other receivables, amounts due from related parties, unrestricted cash and restricted cash.

Financial assets designated at fair value through OCI (debt instruments)
The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- the financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the Consolidated Statement of Profit or Loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

The Group's debt instruments at fair value through OCI included investments in quoted debt instruments.

2. Significant accounting policies (continued)

(h) Financial instruments (continued)

1) Financial assets (continued)

Derecognition
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Consolidated Statement of Financial Position) when:

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

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

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

Impairment of financial assets
Further disclosures relating to impairment of financial assets are also provided in note 26.

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cashflows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit loss exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. Based on its historical credit loss experience, the Group applies an expected loss percentage to high risk debtors.

For debt instruments at fair value through OCI, the Group applies the low credit risk simplification. At every reporting date, the Group evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the internal credit rating of the debt instrument. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off for these reasons when there is no reasonable expectation of recovering the contractual cash flows.

Notes to the consolidated financial statements

2. Significant accounting policies (continued)

(h) Financial instruments (continued)

2) Financial liabilities

Initial recognition and measurement
The Group's financial liabilities are all categorised as financial liabilities measured at amortised cost and financial liabilities at fair value through profit or loss or fair value through OCI. Financial liabilities measured at amortised cost comprises "loans and borrowings", "amounts due to related parties", "trade and other payables", "lessee security deposits" and "accrued maintenance liabilities" in the Consolidated Statement of Financial Position. Financial liabilities comprising of "derivative financial liabilities" are measured at fair value through profit and loss or fair value through OCI.

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

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

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

This category generally applies to interest-bearing loans and borrowings. For more information, refer to note 20.

Derecognition
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Offsetting of financial instruments
Financial assets and financial liabilities are offset, and the net amount is reported in the Consolidated Statement of Financial Position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

3) Derivative financial instruments

The Group uses derivative financial instruments, such as forward currency swaps, interest rate caps and interest rate swaps to hedge its foreign currency risk and interest rate risk, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Notes to the consolidated financial statements

2. Significant accounting policies (continued)

(h) Financial instruments (continued)

3) Derivative financial instruments (continued)

For the purpose of hedge accounting, hedges are classified as:
- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or
- hedges of a net investment in a foreign operation.

At inception of the hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

A hedging relationship qualifies for hedge accounting if:
- there is 'an economic relationship' between the hedged item and the hedging instrument;
- the effect of credit risk does not 'dominate the value changes' that result from the economic relationship; and
- the hedge ration of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for as described below.

Cash flow hedges
The effective portion of the gain or loss on the hedging instrument is recognised in Other Comprehensive Income in the hedging reserve, while any ineffective portion is recognised immediately in the Consolidated Statement of Profit or Loss and Other Comprehensive Income as finance expenses.

Amounts recognised in Other Comprehensive Income are transferred to the Consolidated Statement of Profit or Loss and Other Comprehensive Income when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised in Other Comprehensive Income are transferred to the initial carrying amount of the non-financial asset or non-financial liability.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of a hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, the amounts previously recognised in Other Comprehensive Income remain in Other Comprehensive Income until the forecast transaction occurs or the foreign currency firm commitment is met.

Non-cash flow hedged financial instruments
All non-cash flow hedge derivatives are recognised on the Consolidated Statement of Financial Position at their fair value (market value). Market value is the amount at which an asset can be traded or a liability settled between knowledgeable, willing parties in an arm's length transaction.

If no market value can be readily and reliably established, market value is approximated by deriving it from the market value of components or of a comparable financial instrument, or by approximating market value using valuation models and valuation techniques. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis; and option pricing models, making allowance for entity-specific inputs.

Non-cash flow hedged derivatives are classified at fair value through profit or loss. Gains and losses arising from changes in fair value of a non-hedged derivative are recognised as they arise in the Consolidated Statement of Profit or Loss and Other Comprehensive Income as part of net finance income/expense.

Notes to the consolidated financial statements

2. Significant accounting policies (continued)

(h) Financial instruments (continued)

4) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash resources, finance lease and loan receivables, investments in equity instruments designated at FVOCI, investments in debt instruments at FVOCI, investments in equity financial assets at FVTPL, loans and borrowings, trade and other payables, lessee security deposits and accrued maintenance liabilities.

Non-derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition non-derivative financial instruments are measured at cost using the effective interest rate method, less any impairment losses. Where the terms of a loan facility are amended, the Group determines whether the amendment constitutes a substantial modification under both a quantitative and qualitative basis. If the amendment is deemed a substantial modification, the loan facility is deemed to be a new facility and the loan principal is deemed to have been repaid and all unamortised fees relating to the original loan facility are amortised to the Consolidated Statement of Profit or Loss and Other Comprehensive Income and included under finance expense.

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Cash and cash resources
Unrestricted Cash (Cash and cash equivalents)
The Group considers cash and cash equivalents to be cash on hand and highly liquid investments with maturity dates of 90 days or less.

Restricted cash
Restricted cash comprises cash held by the Group but which is ring-fenced or used as security for specific financing arrangements, and to which the Group does not have unfettered access. All restricted cash is held in cash deposit accounts with major financial institutions in segregated accounts or constitutes short-term overnight money market products predominately issued by the U.S. government.

Investments in equity financial assets at FVTPL
At initial recognition, investments in equity financial assets at FVTPL are recognised at the cost of the initial investment. Subsequent changes in fair value are measured using the discounted cash flow method and are recognised in the statement of profit or loss. Distributions on the investment are recognised as finance income in the statement of profit or loss.

The Group's equity financial assets at FVTPL comprise a 7% equity investment in a special purpose vehicle included other non-current assets.

Trade receivables

Trade receivables represent unpaid lease obligations of lessees under lease contracts, and other receivables. The Group's trade receivables are secured by security deposits or letters of credit which the Group holds on behalf of customers. At each reporting date, the Group assesses whether trade receivables are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Loss allowances for trade receivables are deducted from the gross carrying amount of the trade receivable.

Loans and borrowings
This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

This category generally applies to interest-bearing loans and borrowings. For more information, refer to note 20.

Notes to the consolidated financial statements

2. Significant accounting policies (continued)

(h) Financial instruments (continued)

4) Non-derivative financial instruments (continued)

Modification of loans
The Group assesses whether the new terms of modified third party loans where the modification results in a modification of contractual cash flows are substantially different to the original terms. In making this assessment, the Group considers, among others, significant changes in the interest rate. If the terms are substantially different, the Group derecognises the original financial liability and recognises a new financial liability at fair value and recalculates a new effective interest rate for the liability. If the terms are not substantially different, the modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the liability recalculated by discounting the modified cash flows at the original effective interest rate and recognises a modification gain or loss in the Consolidated Statement of Profit or Loss and Other Comprehensive Income. The present value of the modified cash flow of the financial liability is subsequently amortised using the effective interest rate method over the remaining life of the loan and recorded as part of finance expense in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

(i) Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Aircraft and engines are assessed for recoverability in accordance with IAS 36 - Impairment of Assets ("IAS 36"), at each reporting date or whenever events or changes in circumstances indicates that their carrying value may not be recoverable. For the purposes of measuring an impairment loss, each aircraft is tested individually by comparing its carrying amount to the higher of value in use and fair value less cost to sell.

Value in use is determined as the total cash flows expected to be generated by an aircraft, discounted at a market rate. Fair value is determined as an average of two professional valuations obtained from independent appraisers. The review for recoverability has a level of subjectivity and requires the use of judgement in the assessment of estimated future cash flows associated with the use of an aircraft and its eventual disposition. Expected future cash flows are based on all relevant information available, including the existing lease, current contracted rates for similar aircraft, assumed re-lease rates, residual values, economic conditions, technology, airline demand for a particular type of aircraft, appraisal data and industry trends, and assumptions about downtime between re-leasing and the amount of re-leasing costs.

Residual values of property, plant and equipment are determined based on estimated values at the end of the useful lives of aircraft assets, which are supported by estimates received from independent appraisers. Generally, the residual value of aircraft is estimated at 15% of original manufacture cost. Management may, at its discretion, make exceptions to this policy when, in its judgment, the residual value estimated pursuant to this policy does not appear to reflect current expectations of residual values.

Depreciation is recognised in profit or loss on a straight line basis over the estimated useful lives of each part of an item of property, plant and equipment. Assets held under finance leases are depreciated over the shorter of the lease term and their useful lives. The estimated useful lives for the current and comparative periods are as follows:

- passenger aircraft and engines 25 years
- fixture and fittings 5 years
- office equipment 5 years
- computer hardware and software 3 years

Modifications or improvements to plant and equipment are normally expensed. Where such modifications or improvements materially improve the value of the asset or extend its useful life, these are capitalised and depreciated over the remaining economic life of the asset.

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

Notes to the consolidated financial statements

2. Significant accounting policies (continued)

(j) Assets held for sale

Assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets (or components of a disposal group) are re-measured in accordance with the Group's accounting policies. Thereafter generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell, except for certain items that continue to be measured in accordance with usual accounting policies.

(k) Investment in equity-accounted investee

Investments in non-consolidated affiliates are accounted for using the equity method, where the interest is greater than 20% but less than 50%. The initial investment, and any subsequent investments are measured at cost. The Group's percentage share of the net profits or losses of the affiliate are accounted for through the Consolidated Statement of Profit or Loss and Other Comprehensive Income. Cash distributions received are recorded as a reduction to the carrying cost of the investment.

(l) Accrued maintenance liabilities

Accrued maintenance liabilities received in cash from lessees are recognised as maintenance liabilities on the Consolidated Statement of Financial Position (liabilities) in recognition of the contractual commitment to either refund such receipts or to hold them for future scheduled maintenance work to be performed thereafter. Maintenance work performed by lessees will not be capitalised, but instead will be recorded as a refund of the accrued maintenance liability and shown as a deduction from the payments by the Group for the accrued maintenance liabilities account on the Consolidated Statement of Financial Position. Lessor contributions and top-ups to the accrued maintenance liabilities will be recorded as a leasing expense (over the term of the lease), except where a liability exists by virtue of having purchased an aircraft with leases attached including an obligation to refund accrued maintenance liabilities payments made to date by the lessee, or where they are deemed to be modifications / improvements that materially improve the value of the asset/ lease or extends its useful life whereby it would be capitalised and depreciated over the respective life of the asset or remaining term of the lease. When flight equipment is sold the portion of the accrued maintenance liabilities which is not assigned to the buyer is recognised as gain or loss on disposal of property, plant and equipment. See note 22 for further information. The Group relies on its ongoing use of its maintenance forecasting model to assess contractual commitments to refund maintenance receipts and recognise any excess reserves in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

(m) Lessor contributions

At the beginning of each new lease, subsequent to the first lease on a new aircraft, lessor contributions representing contractual obligations on the part of the Group to contribute to the lessee's cost of the next planned major maintenance event, expected to occur during the lease, are established. The Group regularly reviews the level of lessor contributions to cover its contractual obligations under current lease contracts and makes adjustments as necessary. Lessor contributions represent a lease incentive and are recorded as a charge against lease rental income over the life of the associated lease. When aircraft are sold the portion of the accrued liability not specifically assigned to the buyer is derecognised from the Consolidated Statement of Financial Position as part of the gain or loss on disposal of the aircraft.

(n) Employee benefits

Obligations for contributions to defined contribution pension plans are recognised as an expense in the Consolidated Statement of Profit or Loss and Other Comprehensive Income when they are due.
The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods.

Notes to the consolidated financial statements

2. Significant accounting policies (continued)

(o) Revenue

The Group as lessor, leases aircraft principally under both operating leases and finance leases. Lease revenues from operating leases are recognised on a straight line basis over the term of the lease. Floating rentals are recognised on a straight line basis over the period that the rentals are fixed and accruable. Revenue is not recognised when collection is not reasonably assured. Lease incentives are recognised as a reduction of the total lease revenue on a non-cash receipt basis over the term of the lease. Lease revenue from finance lease receivables comprises interest income and is recognised using the effective interest method.

Most of the Group's lease contracts require payment in advance. Rentals received, but unearned under these lease agreements, are recorded as deferred revenue on the Consolidated Statement of Financial Position in accrued expenses and other liabilities.

Maintenance income is recognised throughout the lease term as the maintenance reserves collected in excess of the projected obligation to refund these maintenance reserves to the lessee during the term of the lease.

The Group also acts as servicer for fellow subsidiaries of AHL. Income is received from these entities for the provision of these services.

(p) Gain/loss on sale of aircraft

Gains/losses from the sale of aircraft or engines is measured at the difference between the fair value of the consideration received or receivable and the carrying value of the aircraft and other aircraft related accounts. Gains/losses on sale of aircraft are recognised when the significant risks and rewards of ownership have been transferred to the buyer.

(q) Initial direct costs

Initial direct costs incurred as part of aircraft transactions, such as, arranging and negotiating leases and debt, are capitalised. Lease related costs are capitalised as an asset included within property, plant and equipment and amortised to the Consolidated Statement of Profit or Loss and Other Comprehensive Income over the period of the lease term. Debt-financing related costs are capitalised as an asset net within debt/liabilities (deferred debt facility fees) and amortised to the Consolidated Statement of Profit or Loss and Other Comprehensive Income on an effective interest basis over the period of the related debt financing, or with revolving credit facilities on a straight line basis over the availability period of the financing.

(r) Foreign currency transactions

Transactions in foreign currencies are translated to US$ at exchange rates at the dates of the transactions.

The assets and liabilities of foreign operations are translated to US$ at exchange rates at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into US$ at the rates of exchange prevailing at the reporting date with differences arising which cannot be deferred in equity as qualifying cash flow hedges are recognised as profit or loss in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

(s) Finance income and expenses

Finance income comprises interest income on cash balances, interest earned on amounts due from related parties, income derived from the early termination of a loan liability balance and foreign currency gains that are recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses comprise interest expense on borrowings, finance lease expenses, unwinding of the discount on provisions, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss and losses on hedging instruments that are recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income. All borrowing costs are recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income using the effective interest method.

Notes to the consolidated financial statements

2. Significant accounting policies (continued)

(t) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax
Deferred tax is recognised using the Consolidated Statement of Financial Position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

(u) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

(v) Segmental reporting

IFRS 8 'Operating Segments' sets out the requirements for disclosure of financial and descriptive information about the Group's operating segments. As a consequence of the listing of the AHL's Senior Secured Notes on the Global Exchange Market of the Irish Stock Exchange, the Group applies IFRS 8 'Operating Segments'. For management and reporting purposes the Group's activities are organised in one reportable segment based on information provided internally to the Chief Operating Decision Maker (the "CODM"). The CODM is considered to be the Group's Board of Directors. The principal activities of the Group involve the acquisition and leasing of commercial jet aircraft and associated aircraft disposals.

(w) Deferred lease incentive

Deferred lease incentive asset represents the value of an acquired lease where the contractual rent payments are above the market rate at the date of acquisition and when an aircraft is acquired at an above market value where the contractual rent payments are above the market rate. This asset is amortised over the remaining term of the related lease agreements and recorded as a non-cash reduction in lease rental income. The estimated useful life is between 4 and 12 years. The deferred lease incentive asset is presented in other assets in the Consolidated Statement of Financial Position.

(x) Borrowing costs

Borrowing costs in respect of aircraft not yet delivered are capitalised as part of aircraft cost.

Notes to the consolidated financial statements

2. Significant accounting policies (continued)

(y) Right-of-use assets and lease liabilities

At inception, the Group assesses whether a contract is or contains a lease. This assessment involves the exercise of judgment about whether the Group obtains substantially all of the economic benefits from the use of that asset, and whether the Group has the right to direct the use of that asset. The Group recognises a right-of-use asset and a lease liability at the commencement of the lease. The right-of-use asset is initially measured based on the present value of lease payments, plus initial indirect costs and the cost of obligations to refurbish the asset, less any lease incentives received. The right-of-use asset is depreciated over the shorter of the lease term or the useful life of the underlying asset. The right-of-use asset is subject to testing for impairment if there is an indicator for impairment.

Lease payments generally include fixed payments and variable payments. When the lease contains an extension or purchase option that the Group considers reasonably certain to be exercised, the cost of the option is included in the lease payments. Lease payments are apportioned between the finance expense and reduction of the lease liability using the incremental borrowing rate of the Group to achieve a constant rate of interest on the remaining balance of the liability.

The Group has elected not to recognise right-of-use assets and lease liabilities for leases where the total lease term is less than or equal to 12 months, or for lease contracts for which the underlying asset is of low value. The payments for such leases are recognised in the Consolidated Statement of Profit or Loss on a straight-line basis over the lease term and included either as part of general and administrative expenses and aircraft maintenance expense.

Right-of-use assets and lease liabilities are disclosed separately on the Consolidated Statement of Financial Position. The depreciation of right-of-use assets is included as part of depreciation and amortisation on the Consolidated Statement of Profit or Loss and Other Comprehensive Income. The finance expense recognised on lease liabilities in included as part of finance expenses on the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

(z) Lessee security deposits

Lessee security deposits represent cash security with respect to aircraft currently on lease and amounts received from lessees who have signed a letter of intent or lease agreement with the Group for aircraft that they have not yet received. Lessee security deposits are generally refundable at the end of the contract lease period after all lease obligations have been met by the customer.

3. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair value is the amount at which an instrument could be exchanged in an arm's length transaction between informed and willing parties, other than as part of a forced liquidation sale. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Property, plant and equipment

The market value of property, plant and equipment is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The Group uses independent, professional valuations as an estimate of fair value of aircraft.

Cash and cash resources

Carrying amount approximates to fair value due to the short-term nature of these instruments. Cash and cash resources comprise cash and cash equivalents and restricted cash. The restricted cash relates to monies within certain of the Group's bank accounts which are restricted in line with the executed transaction agreements signed with the respective financial institutions.

Investments in debt financial assets at FVOCI

The fair value of debt financial assets at FVOCI is determined with reference to quoted values.

Derivatives – interest rate swaps and interest rate caps

Interest rate swap and interest rate cap contracts held by the Group are designated as financial instruments at fair value through profit and loss or financial instruments at fair value through OCI and valued based on market valuation received from external parties and/or using valuation techniques similar to forward pricing and swap models using present value calculations. The models incorporate various market observable inputs, including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Pre-delivery payments

Pre-delivery payments (PDP's) are recorded in the consolidated financial statements at cost as per the applicable purchase agreement. PDP's are assessed for fair value with respect to the valuation of aircraft. The Group uses independent, professional valuations as an estimate of fair value of aircraft. In addition, financing costs associated with PDP's are capitalised as incurred. As aircraft which are subject to PDP's are delivered, all applicable PDP's and financing costs are re-classified to property, plant and equipment.

Notes to the consolidated financial statements

3. Determination of fair values (continued)

Trade receivables

The carrying amount approximates to fair value due to the short-term nature of these instruments.

Loans and borrowings

The fair value of loans and borrowings was estimated using quoted market prices where available. The fair value of certain debt without quoted market prices is estimated using discounted cash flow analysis based on current market prices for similar type debt instruments.

Investments in equity financial assets at FVTPL

The Group holds a 7% equity investment in a special purpose vehicle which is classified as financial assets at fair value through profit or loss. At initial recognition, the investment was recognised at the transaction price. Subsequent changes in fair value are calculated by use of a discounted cash flow analysis which is considered to be reliable and representative of fair value of the investment. See note 25 for further information.

4. Lease revenue

Revenues	Year ended 31 December 2019 US$'000	Year ended 31 December 2018 US$'000
Lease rental income	901,825	841,782
Total lease revenue	**901,825**	**841,782**

Lease rental income is derived from leasing commercial jet aircraft to various operators around the world. The distribution of total lease revenue by geographic region is as follows:

	Year ended 31 December 2019 US$'000	Year ended 31 December 2019 %	Year ended 31 December 2018 US$'000	Year ended 31 December 2018 %
Europe, Middle East and Africa (EMEA)	333,896	37	282,025	34
Asia Pacific (APAC)	410,923	46	372,638	44
Americas	157,006	17	187,119	22
Total lease revenue	**901,825**	**100**	**841,782**	**100**

Lease revenues from the top five customers represented 22% of total lease revenues for the year ended 31 December 2019 (Year ended 31 December 2018: 23%). No customer accounted for more than 5% of total lease revenue in the year ended 31 December 2019 (Year ended 31 December 2018: 5%). At 31 December 2019, there are 7 aircraft (31 December 2018: 11) which have lease contracts with customers which are scheduled to expire during the year ending 31 December 2020.

Lease revenue includes an amount of US$90.5m (Year ended 31 December 2018: US$24.1m) for the year ended 31 December 2019 representing maintenance advances which it has determined will not be required to be refunded to the respective lessees. US$3.4m (Year ended 31 December 2018: US$7.4m) of which has been determined using the Group's maintenance forecasting model. In addition, lease revenue for the year ended 31 December 2019 is an amount of US$72.5m representing maintenance advances for lessees that were in default or entered into administration during the year, which were not required to be refunded (Year ended 31 December 2018: US$15.1m). During the year ended 31 December 2019, the Group held maintenance advances at lease expiry in respect of leases that terminated during the year. These amounted to US$14.6m (Year ended 31 December 2018: US$1.6m) and have been recognised as lease revenue and included in the US$90.5m noted above.

Notes to the consolidated financial statements

4. Lease revenue (continued)

In addition, during the year ended 31 December 2019, the Group recognised a loss allowance of US$3.4m (Year ended 31 December 2018: US$1.1m) in respect of lessees that were in default or had entered into administration. An expected credit loss of US$0.6m was recognised during the year ended 31 December 2019 in respect of the trade receivable balance at 31 December 2019 (Year ended 31 December 2018: US$Nil). At 31 December 2019, there were 12 lease contracts (31 December 2018: 10) where a lessee had early termination rights.

At 31 December 2019, the Group had contracted to receive the following minimum cash lease rentals under non-cancellable operating leases (including assets which are classified as held for sale):

	31 December 2019 US$'000	31 December 2018 US$'000
Not later than one year	840,366	798,187
Later than one year but not later than five years	2,949,189	2,784,472
Later than five years	2,309,698	2,116,248
Total	**6,099,253**	**5,698,907**

5. Other revenue

	Year ended 31 December 2019 US$'000	Year ended 31 December 2018 US$'000
Other revenue	243,710	205,139
Total other revenue	**243,710**	**205,139**

Other revenue includes servicer management fees earned by the Group from third party aircraft owners, Sapphire Aviation Finance I Limited and Sapphire Aviation Finance I (US) LLC ("Sapphire") and Jade Aviation LLC ("Jade") during the year ended 31 December 2019. The Group also acts as servicer for fellow subsidiaries of AHL. In respect of these services provided, the Group earned US$181.2m (Year ended 31 December 2018: US$205.1m). In addition, other revenue for the year ended 31 December 2019 includes an amount of US$3.6m (Year ended 31 December 2018: US$Nil) in respect of payments received from a supplier and an amount of US$1.4m (Year ended 31 December 2018: US$Nil) in arrangement fees in respect of the syndication of aircraft with external parties.

6. General and administrative expenses

	Year ended 31 December 2019 US$'000	Year ended 31 December 2018 US$'000
Compensation and benefit expenses	120,373	109,969
Legal and professional fees	26,844	19,472
Office expenses	10,972	15,983
Travel expenses	12,795	19,321
Other expenses	48,936	14,557
Total general and administrative expenses	**219,920**	**179,302**

General and administrative expenses for the year ended 31 December 2018 includes one-off costs of US$6.7m relating to the ORIX transaction.

Other expenses in 2019 mainly relates to servicer fees paid to fellow subsidiaries of the AHL group.

The Group had 240 employees as at 31 December 2019 (31 December 2018: 232).

Notes to the consolidated financial statements

7. Statutory information

The profit for the year has been arrived at after charging:

Auditor's remuneration	Year ended 31 December 2019 US$'000	Year ended 31 December 2018 US$'000
Audit of the Group financial statements	347	547
Other assurance services	-	-
Tax advisory services	2,967	1,583
Other non-audit services	-	-
Total general and administrative expenses	**3,314**	**2,130**

8. Share of profits from equity-accounted investees

	Year ended 31 December 2019 US$'000	Year ended 31 December 2018 US$'000
Share of profits from equity-accounted investees	714	1,367
Share of profits from equity-accounted investees	**714**	**1,367**

The share of profits from equity-accounted investees relates to the Group's share of profits from its investment in Jade Aviation LLC ("Jade") during the year ended 31 December 2019. For the year ended 31 December 2018, the share of profits from equity accounted investees related to the Group's share of profits from its investment in Jade Aviation LLC ("Jade") and Avolon Capital Partners Limited ("ACP"). The investment in equity accounted investees is detailed further in note 13.

9. Finance income and expense

	Year ended 31 December 2019 US$'000	Year ended 31 December 2018 US$'000
Interest income on loans	291,264	156,745
Interest income from investments in financial assets	1,343	1,215
Interest earned on cash and cash resources	19,769	23,396
Finance income	**312,375**	**181,356**
Interest charges/facility administration fees	(108,835)	(193,175)
Interest expense on related party loan	(509,437)	(288,632)
Unrealised gain on interest rate derivatives	7,230	5,392
Realised (loss) on interest rate derivatives	(11,819)	(4,480)
Amortisation of capitalised debt fees	(33,426)	(32,841)
Net foreign exchange gain/(loss)	2,542	(525)
Interest expense on lease liabilities	(3,605)	-
Finance expense	**(656,350)**	**(514,261)**
Net finance cost	**(343,975)**	**(332,905)**

The loans and borrowings of the Group are detailed further in note 20.

The related party loans of the Group are detailed further in note 28.

Interest charges / facility administration fees during the year ended 31 December 2019 includes a credit of US$1.7m (Year ended 31 December 2018: US$3.6m) relating to breakage gains recognised on the disposal of aircraft and refinancing of certain debt facilities during the year.

Notes to the consolidated financial statements

10. Income tax expense in the Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Year ended 31 December 2019 US$'000	Year ended 31 December 2018 US$'000
Current tax expense:		
- Current year	(1,453)	(622)
Deferred tax expense:		
- Origination and reversal of temporary differences	(9,326)	(13,003)
Total income tax expense	**(10,779)**	**(13,625)**

	Year ended 31 December 2019 US$'000	Year ended 31 December 2018 US$'000
Reconciliation of effective tax rate		
Profit for the year before income tax	299,780	229,602
Corporation tax using Group's domestic tax rate (12.5%)	**37,473**	**28,700**
Permanent differences	102	(39,530)
Non-taxable income	(25,473)	475
Expenses not deductible for tax purposes	-	6,049
Group relief	-	9,614
Impact of tax rate difference in foreign jurisdictions	1,110	88
Prior period (over)/under provision	(2,433)	3,767
Other	-	4,461
Tax expense for the year	**10,779**	**13,625**

Notes to the consolidated financial statements

11. Property, plant and equipment

2019

	Aircraft US$'000	Maintenance right asset US$'000	Other assets US$'000	Total US$'000
Cost				
At 1 January 2019	**8,150,658**	**17,891**	**29,516**	**8,198,065**
Additions	2,211,539	-	2,765	2,214,304
Disposals/derecognitions	(1,074,772)	-	-	(1,074,772)
At 31 December 2019	**9,287,425**	**17,891**	**32,281**	**9,337,597**
Depreciation and impairment				
At 1 January 2019	**(1,097,701)**	**-**	**(9,195)**	**(1,106,896)**
Depreciation/amortisation during the year	(304,825)	-	(5,245)	(310,070)
Impairment	(16,823)	-	-	(16,823)
Disposals/derecognitions	90,005	-	-	90,005
At 31 December 2019	**(1,329,344)**	**-**	**(14,440)**	**(1,343,784)**
Carrying amounts				
At 1 January 2019	7,052,957	17,891	20,321	7,091,169
At 31 December 2019	**7,958,081**	**17,891**	**17,841**	**7,993,813**

2018

	Aircraft US$'000	Maintenance right asset US$'000	Other assets US$'000	Total US$'000
Cost				
At 1 January 2018	**8,083,939**	**14,176**	**7,499**	**8,105,614**
Additions	1,214,520	9,962	22,017	1,246,499
Disposals/derecognitions	(1,147,801)	(6,247)	-	(1,154,048)
At 31 December 2018	**8,150,658**	**17,891**	**29,516**	**8,198,065**
Depreciation and impairment				
At 1 January 2018	**(994,408)**	**-**	**(4,823)**	**(999,231)**
Depreciation/amortisation during the year	(296,902)	-	(4,372)	(301,274)
Impairment	(15,482)	-	-	(15,482)
Disposals/derecognitions	209,091	-	-	209,091
At 31 December 2018	**(1,097,701)**	**-**	**(9,195)**	**(1,106,896)**
Carrying amounts				
At 1 January 2018	7,089,531	14,176	2,676	7,106,383
At 31 December 2018	**7,052,957**	**17,891**	**20,321**	**7,091,169**

At 31 December 2019, the Group owned 157 aircraft (31 December 2018: 150 aircraft). During the year ended 31 December 2019, the Group purchased 28 aircraft (Year ended 31 December 2018: 19 aircraft). In addition, the Group sold 21 aircraft during the year ended 31 December 2019 (Year ended 31 December 2018: sold 31 aircraft).

Notes to the consolidated financial statements

11. Property, plant and equipment (continued)

At 31 December 2019, the Group had agreements for the sale of one committed aircraft (31 December 2018: Nil) which met the criteria under IFRS 5, non-current assets held for sale and discontinued operations ("IFRS 5") to be classified as held for sale. See note 17 for details of assets held for sale.

The Group's obligations under its secured bank loans are secured by charges over, amongst other things, the Group's aircraft and related assets with a carrying value at 31 December 2019 of US$4,019m (31 December 2018: US$5,898m).

Aircraft are assessed for recoverability in accordance with IAS 36 - Impairment of Assets ("IAS 36"), at each reporting date or whenever events or changes in circumstances indicate that their carrying value may not be recoverable. During the year ended 31 December 2019, an impairment charge of US$16.8m was recognised in respect of 6 aircraft where the lessees were in default or had entered into administration where the net book value of the aircraft was in excess of its market value at 31 December 2019. There were no other indicators of impairment during the year ended 31 December 2019.

During the year ended 31 December 2018, an impairment charge of US$15.5m was recognised in respect of 1 aircraft where the lessees were in default or had entered into administration and aircraft where the net book value of the aircraft was in excess of its market value at 31 December 2018.

The factors considered in estimating the future cash flows are impacted by changes in contracted lease rates, future projected lease rates, transition costs, estimated downtime, estimated residual values, economic conditions, technology and airline demand for particular aircraft types. These estimated cashflows were discounted at an average rate of 4.9% (31 December 2018: 5.4%) per annum being the specific weighted average cost of capital for the aircraft which were impaired during the year ended 31 December 2019.

A sensitivity analysis was performed to determine the potential impact of the below movements in the various risk variables;
- 0.5% increase/decrease in the discount rate to determine the specific weighted average cost of capital for each aircraft
- 10% increase/decrease in the future lease rental cashflows of each aircraft
- 10% increase/decrease in the residual value of aircraft at end of its useful economic life

None of the above movements in risk variables would have resulted in a material impact on the impairment charge for property, plant and equipment for the years ended 31 December 2019 or 2018.

Geographic concentration:

(calculation based on net book value of aircraft by operators' geographic region and excluding other assets)	**31 December 2019 US$'000**	**31 December 2019 %**	**31 December 2018 US$'000**	**31 December 2018 %**
Europe, Middle East and Africa (EMEA)	3,088,854	39%	2,408,683	34%
Asia Pacific (APAC)	3,440,474	43%	3,253,340	46%
Americas	1,446,644	18%	1,408,825	20%
Total	**7,975,972**	**100%**	**7,070,848**	**100%**

Notes to the consolidated financial statements

12. Right-of-use assets/lease liabilities

(a) Right-of-use assets

2019	**31 December 2019** **US$'000**
Cost	
At 1 January 2019	-
IFRS 16 Transition adjustment	91,239
At 1 January 2019 (restated)	**91,239**
New leases	4,774
Modification or termination of leases	(24,367)
At 31 December 2019	**71,646**
Depreciation and impairment	
At 1 January 2019	-
Depreciation during the year	4,487
At 31 December 2019	**4,487**
Carrying amounts	
At 1 January 2019	-
At 31 December 2019	**67,159**

The Group leases office spaces under operating leases in each of its office locations. All the office space leases were entered into between 2011 and 2019 as combined leases of land and buildings. The operating lease agreement expiry dates range between 2020 and 2042. The rent paid to the landlord is based on a fixed rental, and the Group does not have an interest in residual value of the land and buildings or office lease contracts which have not yet commenced to which the Group is committed.

Right-of-use assets recognised are in relation to the office space lease agreements the Group has entered into which are outlined above (refer to note 2(c) and (d)). There were no costs incurred by the Group relating to variable lease payments on leases that do not depend on an index or a rate for year ended 31 December 2019. The expenses relating to leases for which the Group has applied the practical expedients described in paragraph 5a and 5b of IFRS 16 (leases with the contract term of less than 12 months and leases of assets of low value) amounted to US$0.5m for the year ended 31 December 2019 and has been included within general and administrative expenses.

Extension and termination options are included in a number of property leases. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

(b) Lease liabilities

Non-current liabilities	**31 December 2019** **US$'000**
Lease liabilities	69,843
Total non-current lease liabilities	**69,843**

Current liabilities	**31 December 2019** **US$'000**
Lease liabilities	1,077
Total current lease liabilities	**1,077**

Notes to the consolidated financial statements

12. Right-of-use assets/lease liabilities (continued)

(b) Lease liabilities (continued)

	31 December 2019 US$'000
At 1 January 2019	-
IFRS 16 Transition adjustment	92,653
At 1 January 2019 (restated)	**92,653**
New leases	4,774
Modification or termination of leases	(24,850)
Interest expense	3,605
Foreign exchange revaluation	(1,688)
Lease repayments	(3,574)
At 31 December 2019	**70,920**

At 31 December 2019, the future minimum lease payments under non-cancellable leases relating to:

	31 December 2019 US$'000	31 December 2018 US$'000
Less than one year	4,231	3,630
Between one and five years	17,634	28,947
More than five years	95,841	109,177
Total	**117,706**	**141,754**

(c) Amounts included in statement of profit or loss

During the year ended 31 December 2019, the Group recognised the following amounts in the statement or profit or loss relating to short term and low value leases:

	Line item in statement of profit or loss	Year ended 31 December 2019 US$'000
Expense relating to short-term leases	General and administrative expenses	542

13. Investment in equity-accounted investees

	31 December 2019 US$'000	31 December 2018 US$'000
Non-current assets		
Investment in equity-accounted investees	15,167	15,850
Total non-current investment in equity-accounted investees	**15,167**	**15,850**

Notes to the consolidated financial statements

13. Investment in equity accounted investees (continued)

In 2018, the Group entered into an arrangement with Cinda Leasing (HK) Co. ("Cinda") and subsequently Jade Aviation LLC ("Jade") was formed in which the Group holds a 20% shareholding. Jade is principally engaged in leasing commercial jet aircraft and was incorporated in the Cayman Islands on 11 January 2018. The Group has a residual interest in the net assets of Jade. The Group has determined that it has significant influence in Jade as the Group is permitted to nominate one director to the board of directors, the Group is entitled to participate in policy-making processes including participation in decisions about dividends or other distributions through having representation on the board of directors and the Group will provide essential technical information under a Servicer Agreement signed with Jade. Jade has been included in the Group's Consolidated financial statements as an equity accounted investee using the equity method of accounting. Jade is not publicly listed and is an Irish tax resident entity. Jade acquired 3 aircraft and sold one aircraft during the year ended 31 December 2019 (Year ended 31 December 2018: 6 aircraft) and held 8 aircraft at 31 December 2019 (31 December 2018: 6). The Group's exposure to a loss in Jade is limited to the equity the Group has invested.

The following table summarises the unaudited financial information of Jade as included in its own financial statements.

	Year ended 31 December 2019 US$'000	Year ended 31 December 2018 US$'000
Percentage ownership interest	**20%**	**20%**
Non-current assets	351,630	287,895
Current assets	100,345	87,372
Non-current liabilities	(355,953)	(262,746)
Current liabilities	(3,067)	(24,972)
Net assets (100%)	**92,956**	**87,549**
Group's share of net assets (20%)	18,591	17,510
Elimination of unrealised profit on servicing fees and origination fees	(3,424)	(1,660)
Carrying amount of interest in joint venture	**15,167**	**15,850**
Revenue	40,028	7,729
Gain on disposal	5,948	-
Depreciation and amortisation	(28,785)	(3,690)
Interest expense	(10,906)	(3,543)
General and administrative expenses	(828)	(387)
Income tax charge/result	(682)	-
Net income and total comprehensive income (100%)	4,775	109
Profit and total comprehensive profits (20%)	955	22
Elimination of unrealised profit on servicing fees and origination fees	(174)	(35)
Group's share of losses/result and total comprehensive income	**781**	**(13)**
Dividends received by the Group	**-**	**-**

During 2013, the Group entered into an arrangement with Wells Fargo & Company and subsequently Avolon Capital Partners Limited ("ACP") was formed in which the Company held a 25% shareholding. ACP was principally engaged in leasing commercial jet aircraft and was incorporated in the Cayman Islands on 19 December 2012. The Group had a residual interest in the net assets of ACP. The Company determined that it had significant influence in ACP as the Company acted as administrative agent and had representation on the Board of Directors. As a result, ACP is included in the Company's consolidated financial statements as an equity-accounted investee using the equity method of accounting. ACP was not publicly listed and was an Irish tax resident entity. During the year ended 31 December 2019, the Group made a capital contribution to ACP of US$0.07m (Year ended 31 December 2018: distribution US$2.8m; share of profits US$1.4m). Formal liquidation of ACP commenced with effect from 30 December 2019. At 31 December 2019, the Group's investment in ACP was US$Nil (Year ended 31 December 2018: US$Nil).

Notes to the consolidated financial statements

13. Investment in equity accounted investees (continued)

The following table summarises the financial information of ACP as included in its own financial statements, adjusted for fair value adjustments at acquisition and differences in accounting policies

	Year ended 31 December 2019 US$'000	Year ended 31 December 2018 US$'000
Percentage ownership interest	**25%**	**25%**
Non-current assets	-	-
Current assets	-	103
Non-current liabilities	-	-
Current liabilities	-	(263)
Net (liabilities)/assets (100%)	-	**(160)**
Group's share of net (liabilities)/assets (25%)	-	(40)
Elimination of unrealised profit on servicing fees and origination fees	-	40
Carrying amount of interest in joint venture	-	-
Revenue	-	94
Depreciation and amortisation	-	-
Interest expense	-	(7)
General and administrative expenses	-	(515)
Income tax charge/result	-	55
Net income and total comprehensive income (100%)	-	(372)
Profit and total comprehensive profits (25%)	-	(93)
Elimination of unrealised profit on servicing fees and origination fees	-	31
Group's share of profits and total comprehensive income	**(66)**	**1,380**
Capital Contribution made by the Group	(66)	-
Dividends received by the Group	-	**1,442**

14. Other assets

	31 December 2019 US$'000	31 December 2018 US$'000
Non-current assets		
Deferred lease incentive asset	161,346	132,685
Total non-current assets	**161,346**	**132,685**
Current assets		
Deferred lease incentive asset	27,999	28,096
Deferred lease revenue asset	6,518	2,152
Other deposits paid	3,033	305
Total current assets	**37,550**	**30,553**

The deferred lease incentive asset represents an above market purchase price paid and lessor contributions to lessees in relation to 73 aircraft (31 December 2018: 70). The deferred lease incentive asset is amortised on a straight line basis over the respective lease terms and recorded as a reduction of lease rental income. During the years ended 31 December 2019 and 2018, the Group disposed of aircraft for which unamortised deferred lease incentive assets existed. During the year ended 31 December 2019, unamortised amounts of US$12.6m (Year ended 31 December 2018: US$Nil) were derecognised upon the sale of the aircraft and are reflected as part of the gain on disposal of property, plant and equipment.

Notes to the consolidated financial statements

15. Pre-delivery payments (PDP's)

	31 December 2019	31 December 2018
	US$'000	US$'000
Pre-delivery payments – OEM's	1,639,345	1,426,740
Total PDP's	**1,639,345**	**1,426,740**

Movements in pre-delivery payments during the years ended 31 December 2019 and 2018 were as follows:

	31 December 2019	31 December 2018
	US$'000	US$'000
At 1 January	1,426,740	453,814
Additions	756,649	359,836
Capitalised PDP interest	63,094	27,993
Transfer from related parties	-	636,012
Transferred to property, plant and equipment	(591,703)	(50,915)
Transfer to HFS	(15,435)	-
At 31 December	**1,639,345**	**1,426,740**

OEM refers to the Original Equipment Manufacturer. At 31 December 2019, the Group had made pre-delivery payments in respect of certain aircraft to be delivered between 2020 and 2026. During the year ended 31 December 2019, PDP interest was capitalised at a rate of 4.2% (Year ended 31 December 2018: 4.2%). During the year ended 31 December 2019, PDP assets transferred into the Group from related parties amounting to US$Nil (31 December 2018: US$636m).

During the year ended 31 December 2019, 22 aircraft delivered on which pre-delivery payments had been made (Year ended 31 December 2018: 6). The pre-delivery payments made in respect of these aircraft have been transferred to property, plant and equipment as part of the initial cost recognised for these aircraft.

16. Cash and cash resources

	31 December 2019	31 December 2018
	US$'000	US$'000
Unrestricted bank balances	610,673	565,379
Bank balances subject to withdrawal restrictions	78,801	124,226
Cash and cash resources	**689,474**	**689,605**

Cash and cash resources subject to withdrawal restrictions represent cash securing the Group's obligations under third party credit facilities. Amounts received from lessees in respect of aircraft subject to certain funding arrangements may be required to be held in segregated accounts to support, amongst other things, certain maintenance related payments including major airframe overhauls, engine overhauls, engine life limited parts replacements, auxiliary power unit overhauls and landing gear overhauls; as well as interest and principal payments on the related debt facilities.

Unrestricted cash represents cash held in the bank accounts related to the Group's share of proceeds from lease rental income, sales proceeds from disposal of aircraft and proceeds realised following refinancing of debt facilities during the years ended 31 December 2019 and 31 December 2018.

Notes to the consolidated financial statements

17. *Assets/liabilities held for sale*

At 31 December 2019, the Group had an agreement for the sale of one committed aircraft (31 December 2018: no aircraft) which is classified as held for sale. This aircraft is undelivered as at 31 December 2019. Under the provisions of IFRS 5, any aircraft which meets certain criteria and is expected to be sold in its present condition is required to be classified as held for sale. The Group expects to finalise the purchase and sale of the 1 aircraft within the twelve months from 31 December 2019. The Group did not incur any impairment losses in respect of the 1 aircraft (31 December 2018: US$Nil).

Assets held for sale

	31 December 2019 US$'000	31 December 2018 US$'000
Pre-delivery payments (PDP's)	15,435	-
Total	**15,435**	-

18. Trade and other receivables

	31 December 2019 US$'000	31 December 2018 US$'000
Trade receivables	82,766	36,161
VAT receivable	928	404
Total trade and other receivables	**83,694**	**36,565**

The trade receivable amount relates to lease revenue receivable and other miscellaneous receivables. The amount is measured at amortised cost and is neither past due nor impaired other than the loss allowance outlined in note 26.

Information about the Group's exposure to credit and market risks is included in note 26.

Notes to the consolidated financial statements

19. Capital and reserves

Consolidated reconciliation of movement in capital and reserves

	Share capital US$'000	Share premium US$'000	Retained earnings US$'000	Other reserves US$'000	Capital contribution US$'000	Total equity US$'000
At 1 January 2019	**109**	**21,339**	**1,284,717**	**405**	**-**	**1,306,570**
Total comprehensive income for the year						
- Profit for the year	-	-	289,001	-	-	289,001
-Other comprehensive loss	-	-	-	(10,416)	-	(10,416)
-Capital contribution					1,215,366	1,215,366
At 31 December 2019	**109**	**21,339**	**1,574,606**	**(10,011)**	**1,215,366**	**2,800,521**

	Share capital US$'000	Share premium US$'000	Retained earnings US$'000	Other reserves US$'000	Capital contribution US$'000	Total equity US$'000
At 1 January 2018	**121**	**1,236,693**	**1,068,740**	**960**	**-**	**2,306,514**
Total comprehensive income for the year						
- Profit for the year	-	-	215,977	-	-	215,977
- Other comprehensive loss	-	-	-	(555)	-	(555)
- Redemption of class D shares	(12)	(1,215,354)	-	-	-	(1,215,366)
At 31 December 2018	**109**	**21,339**	**1,284,717**	**405**	**-**	**1,306,570**

The Company's issued share capital is set at US$108,869 (2018: US$108,869) represented by 1,209,660 category A shares, 1,209,657 category B shares, 1,209,657 category C shares, 1,209,657 category E shares, 1,209,657 category F shares, 1,209,657 category G shares, 1,209,657 category H shares, 1,209,657 category I shares, 1,209,657 category J shares and 1 category K share, each of which are divided into different classes as set forth below. Each of the shares having a par value of one cent United States Dollars (US$ 0.01).

During the year to 31 December 2018, 1,209,657 Class D shares with a par value of US$0.1 each were repurchased for a total amount of US$1.2bn and cancelled.

During the year to 31 December 2019, the Company received a capital contribution from AHL for US$1.2bn (2018: US$Nil) without issuance of shares.

At 31 December 2019, the issued share capital was as follows:

Issued share capital **Share class**	**Number of shares 2019**	**Par value (US$) 2019**	**Number of shares 2018**	**Par value (US$) 2018**
Class A shares	1,209,660	0.01	1,209,660	0.01
Class B shares	1,209,657	0.01	1,209,657	0.01
Class C shares	1,209,657	0.01	1,209,657	0.01
Class D shares	-	-	-	-
Class E shares	1,209,657	0.01	1,209,657	0.01
Class F shares	1,209,657	0.01	1,209,657	0.01
Class G shares	1,209,657	0.01	1,209,657	0.01
Class H shares	1,209,657	0.01	1,209,657	0.01
Class I shares	1,209,657	0.01	1,209,657	0.01
Class J shares	1,209,657	0.01	1,209,657	0.01
Class K shares	1	0.01	1	0.01

Notes to the consolidated financial statements

20. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings.

Non-current liabilities	31 December 2019 US$'000	31 December 2018 US$'000
Secured and unsecured bank loans	3,667,113	4,472,052
Capitalised debt fees	(58,043)	(58,879)
Total non-current loans and borrowings	**3,609,070**	**4,413,173**

Current liabilities	31 December 2019 US$'000	31 December 2018 US$'000
Current portion of secured and unsecured bank loans	339,599	466,590
Capitalised debt fees	(19,788)	(32,841)
Secured and unsecured bank loan interest accrued but not paid	8,674	11,759
Total current loans and borrowings	**328,485**	**445,508**

Secured and unsecured bank loans (repayable by instalment)

	31 December 2019 US$'000	31 December 2018 US$'000
At 1 January	4,858,681	5,354,446
Principal advanced	1,039,982	980,976
Accrued and unpaid interest	(3,085)	819
Principal repaid	(1,967,029)	(1,473,107)
Capitalised debt fees	(19,538)	(37,294)
Capitalised debt fees amortisation	33,426	32,841
IFRS 9 adjustment	(6,122)	-
Accretion of IFRS 9 adjustment	1,240	-
At 31 December	**3,937,555**	**4,858,681**

Type of Debt	Nominal Value 31 December 2019	Fair value and IFRS 9 (*) Adjustments 31 December 2019	Carrying Value 31 December 2019	Average Nominal Interest Rate as at 31 December 2019	Maturity as at 31 December 2019
Non-recourse term facilities	359,953	(2,213)	357,740	3.77%	2020-2022
Full recourse term facilities	2,492,443	(2,669)	2,489,774	3.57%	2020-2031
ECA and EXIM backed facilities	659,198	-	659,198	3.04%	2020-2030
Term Unsecured	500,000	-	500,000	3.65%	2020-2022
Loan interest accrued but not paid	8,674	-	8,674	N/A	N/A
	4,020,268	**(4,882)**	**4,015,386**		

(*) Includes an amount of US$6.1m relating to IFRS 9 adjustments on the amendment of facilities during the year ended 31 December 2019, net of US$1.2m accretion on all IFRS 9 adjustments during the year ended 31 December 2019.

Notes to the consolidated financial statements

20. Loans and borrowings (continued)

Type of Debt	Nominal Value	Fair value and IFRS 9 Adjustments	Carrying Value 31 December 2018	Average Nominal Interest Rate as at 31 December 2018	Maturity as at 31 December 2018
Non-recourse term facilities	505,962	-	505,962	4.23%	2019-2022
Full recourse term facilities	3,364,610	-	3,364,610	4.04%	2019-2029
ECA and EXIM backed facilities	818,070	-	818,070	3.18%	2019-2030
Lines of credit	250,000	-	250,000	6.25%	2019-2022
Loan interest accrued but not paid	11,759	-	11,759	N/A	N/A
	4,950,401	**-**	**4,950,401**		

At 31 December 2019 and 31 December 2018, the Group was in full compliance with the covenants in its credit agreements. The Group's debt facilities contain customary covenants and events of default; included within certain debt facilities are covenants that limit the ability of the Group to incur additional indebtedness and create liens and covenants that limit the ability of the Group to consolidate, merge or dispose of all or substantially all of its assets and enter into transactions with affiliates.

Non-recourse obligations:
At 31 December 2019, 14 aircraft (31 December 2018: 20), 12 of which were held by HKAC (2018: 13), were financed on a non-recourse basis. All of the loans contain provisions that require the payment of principal and interest throughout the terms of the loans. The interest rates are based on fixed rates of between 3.07% and 4.04% (31 December 2018: 3.14% and 6.58%) and three or six month LIBOR plus a margin of 2.1% (31 December 2018: 2.10% to 2.83%) on the floating loans. At 31 December 2019, there are no available undrawn balances (31 December 2018: US$Nil).

Recourse obligations:
At 31 December 2019, 83 aircraft (31 December 2018: 112), 16 of which were held by HKAC (31 December 2018: 20) and 10 of which held by Park (31 December 2018: 3), were financed on a full recourse basis. All of the loans contain provisions that require the payment of principal and interest throughout the terms of the loans. The interest rates on the loans are based on fixed rates of between 2.69% and 6.35% (31 December 2018: 3.00% and 5.69%) and one, three or six month LIBOR plus margins ranging from 1.30% to 2.05% (31 December 2018: 1.50% to 2.25%) on the floating loans. At 31 December 2019, there are no available undrawn balances (31 December 2018: US$664.0m).

Term unsecured:
On 15 March 2019, the Group executed the term unsecured facility with an aggregate commitment of US$500.0m accruing interest at a rate of three month LIBOR plus a margin of 1.70% and a term of three years. At 31 December 2019, there were no available undrawn balances. In addition, AHL, Avolon Aerospace Leasing Limited, Hong Kong Aviation Capital Limited, Park, CIT Aerospace LLC, CIT Group Finance (Ireland), CIT Aviation Finance III Ltd and CIT Aerospace International have guaranteed the repayment of the term unsecured facility.

ECA and EXIM backed facilities:
At 31 December 2019, 7 aircraft (31 December 2018: 13) were being financed with the proceeds of loans guaranteed by one of the European Export Credit Agencies ("ECA") and Export-Import Bank of the United States ("EXIM"), on standard export agency supported financing terms whereby the subject loans are amortised quarterly over the period of 12 years (31 December 2018: 12) from drawdown with interest accruing at fixed rates between 2.85% and 3.37% (31 December 2018: 2.43% and 3.37%) and a floating rate of three month LIBOR plus a margin of 0.43% (31 December 2018: 0.43% and 1.45%). The documentation governing the ECA- and EXIM-guaranteed loans (the "ECA Term Financings") contain covenants and events of default customary for export credit agency supported financings.

Notes to the consolidated financial statements

20. Loans and borrowings (continued)

The obligations outstanding under the ECA Term Financings are secured by, among other things, a mortgage over the aircraft and a pledge of the Group's ownership interest in the subsidiary company that leases the aircraft to the operator. The ECA Term Financings contain a minimum net worth covenants for AHL and other terms and conditions customary for export credit agency supported financings being completed at this time. During the year ended 31 December 2019, the ECA Term Financings documentation was amended to include unconditional guarantees from AHL, Avolon Aerospace Leasing Limited, Hong Kong Aviation Capital Limited, Park, CIT Aerospace LLC, CIT Group Finance (Ireland), CIT Aviation Finance III Ltd and CIT Aerospace International.

Warehouse:
At 31 December 2019, the Avolon Warehouse Facility accrues interest at LIBOR plus 1.50% on drawn balances (31 December 2018: LIBOR plus 1.90%) and between 0.40% on undrawn balances (31 December 2018: 0.50% and 0.60%) with an availability period out to 2022. Borrowings under the Avolon Warehouse Facility are secured by collateral including mortgages over the aircraft assets and pledges of ownership interests in the aircraft. At 31 December 2019, no aircraft (31 December 2018: no aircraft) were financed by this facility. At 31 December 2019, the Group can avail of undrawn debt balances of US$905.0m (31 December 2018: US$905.0m).

The Avolon Warehouse Facility documentation contains a minimum net worth covenant for AHL. Avolon Aerospace Leasing Limited, acting as servicer, is required to maintain a minimum level of unrestricted cash plus amounts available under all bank lines of credit. In addition, AHL, Avolon Aerospace Leasing Limited, Hong Kong Aviation Capital Limited, Park, CIT Aerospace LLC, CIT Group Finance (Ireland), CIT Aviation Finance III Ltd and CIT Aerospace International have guaranteed the repayment of the Avolon Warehouse facility.

Lines of credit:
At 31 December 2019, the Group had one revolving unsecured facility with Avolon Aerospace Leasing Limited as borrower. During the year ended 31 December 2019, the Group amended this facility to increase the aggregate commitment from US$2,190.0m to US$3,152.5m and extended the availability period from 2022 to 2024. At 31 December 2019, the revolving unsecured facility accrues interest at a rate of one month LIBOR plus a margin of 1.25% on drawn balances. At 31 December 2019, the Group can avail of undrawn debt balances of US$3,152.5m (31 December 2018: US$1,940.0m). In addition, AHL, Hong Kong Aviation Capital Limited, Park, CIT Aerospace LLC, CIT Group Finance (Ireland), CIT Aviation Finance III Ltd and CIT Aerospace International have guaranteed the repayment of the revolving unsecured facility.

The aggregate repayment of secured and unsecured bank loans for each of the fiscal years subsequent to 31 December 2019 is as follows:

	Nominal value 31 December 2019 US$'000	Contractual cashflow 31 December 2019 US$'000	Nominal value 31 December 2018 US$'000	Contractual cashflow 31 December 2018 US$'000
Due within one year	341,057	477,729	448,937	597,360
Due between two and five years	2,627,444	2,951,390	3,107,775	3,476,143
Due after five years	1,043,093	1,079,977	1,142,170	1,242,730
Total	**4,011,594**	**4,509,096**	**4,698,882**	**5,316,233**

The Group has the option to assign fixed or floating rates to certain of its undrawn facilities held at 31 December 2019. Certain facilities require debt to be floating, however the Group may purchase interest rate caps or enter into interest rate swaps to hedge its risk.

Notes to the consolidated financial statements

21. Lessee security deposits

At 31 December 2019, lessee security deposits amounted to US$113.6m (31 December 2018: US$136.1m), of which US$110.5m (31 December 2018: US$128.8m) and US$3.1m (31 December 2018: US$7.3m) was classified as non-current and current respectively. This related to cash security received of US$88.5m (31 December 2018: US$82.3m) with respect to 86 aircraft (31 December 2018: 76) currently on lease and US$25.1m (31 December 2018: US$53.8m) which was received from lessees who have signed a letter of intent with the Group.

Furthermore, at 31 December 2019, the Group holds security on lease obligations for other aircraft in the form of letters of credit in the amount of US$77.9m (31 December 2018: US$63.6m).

Lessee security deposits are generally refundable at the end of the contract lease period after all lease obligations have been met by the lessee.

22. Accrued maintenance liabilities

Maintenance advances & liabilities	31 December 2019 US$'000	31 December 2018 US$'000
At 1 January	347,312	354,641
Additions	154,451	173,542
Releases	(90,469)	(24,064)
Drawdowns	(32,339)	(156,807)
At 31 December	**378,955**	**347,312**

During the year ended 31 December 2019, the Group recognised US$90.5m (Year ended 31 December 2018: US$24.1m) of maintenance reserves as lease revenue in the Consolidated Statement of Profit or Loss and Other Comprehensive Income. Please see note 4 for further detail. At 31 December 2019, the total accrued maintenance reserves is comprised of US$362.5m (31 December 2018: US$321.7m) of non-current accrued maintenance reserves and US$16.5m (31 December 2018: US$25.6m) of current accrued maintenance reserves.

Furthermore, at 31 December 2019, the Group holds security on maintenance lease obligations for other aircraft in the form of letters of credit in the amount of US$180m (31 December 2018: US$169.1m).

In assessing the amount to accrue for maintenance reserves, the Directors consider factors such as timing of maintenance events and the projected costs of maintenance events which would be likely to occur during the lease term for aircraft on lease by the Group. The Directors develop the assumptions used in accruing for maintenance reserves based on their knowledge of active lease contracts, historical experience in the aircraft leasing market and aviation industry, as well as information received from third party sources.

23. Deferred tax assets and liabilities

2019	Assets 31 December 2019 US$'000	Liabilities 31 December 2019 US$'000	Net 31 December 2019 US$'000
Property, plant and equipment	-	(395,820)	(395,820)
Trade losses	346,932	-	346,932
Unrecognised losses	-	-	-
Revaluation of derivative financial instruments to fair value	-	(844)	(844)
Tax assets / (liabilities)	**346,932**	**(396,663)**	**(49,732)**

2018	Assets 31 December 2018 US$'000	Liabilities 31 December 2018 US$'000	Net 31 December 2018 US$'000
Property, plant and equipment	-	(316,819)	(316,819)
Trade losses	278,323	-	278,323
Unrecognised losses	-	(1,066)	(1,066)
Revaluation of derivative financial instruments to fair value	-	-	-
Tax assets / (liabilities)	**278,323**	**(317,885)**	**(39,562)**

Notes to the consolidated financial statements

23. Deferred tax assets and liabilitics (continued)

In assessing the ability to realise the deferred tax assets, directors consider whether it is probable that some portion or all of the deferred tax assets will not be realised. All available evidence is considered and weighed to determine whether de-recognition of a deferred tax asset is needed or should be removed. The ultimate realisation of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The tax losses carried forward where deferred tax asset was not recognised at 31 December 2019 amounted to US$1.3m (31 December 2018: US$8.5m).

The amount of the deferred tax asset is considered realisable, however, it could be significantly reduced in the near term if estimates of future taxable income during the carry forward period are reduced due to prolonged dislocation in the capital markets and negative changes in economic conditions and their consequences for air travel generally and specifically demand for aircraft. The key judgements associated with the accounting for deferred taxes relate primarily to temporary differences:

• Favourable profit projections which are consistent with forecasts used for internal management and planning purposes, and also consistent with forecasts used to support other areas of financial reporting such as impairment analysis;

• Contractually committed lease agreements which support a future income stream in excess of the costs required to service the lease; and
• Appreciation of the value of flight equipment in excess of their carrying value.

24. Trade and other payables

	31 December 2019	31 December 2018
Current	**US$'000**	**US$'000**
Deferred lease revenue	68,108	66,087
Other liabilities and accruals	74,400	64,492
Trade payables	3,496	922
Lease deficit	2,725	663
Total trade and other payables	**148,729**	**132,164**

	31 December 2019	31 December 2018
Non-current	**US$'000**	**US$'000**
Lease deficit	6,242	4,040
Total trade and other payables	**6,242**	**4,040**

Other liabilities and accruals include mainly year end accruals.

25. Financial instruments

The Group utilises financial instruments to reduce exposures to market risks throughout its business. Loans and borrowings, cash and cash resources are used to finance the operations of the business. Derivative financial instruments are contractual agreements with a value which reflects price movements in an underlying asset. Derivative financial instruments, principally interest rate caps and interest rate swaps are used to manage interest rate risks and achieve the desired profile of borrowings.

The main risks attaching to the financial instruments of the Group are disclosed in note 26.

Notes to the consolidated financial statements

25. Financial instruments (continued)

(a) Carrying value and fair value of financial assets and liabilities

The carrying value and fair value of the Group's financial assets and financial liabilities by class and category were as follows:

	Fair value – hedging instruments 31 December 2019 US$'000	Designated at FVTPL 31 December 2019 US$'000	Financial assets or liabilities at amortised cost 31 December 2019 US$'000	Carrying amount 31 December 2019 US$'000	Fair value 31 December 2019 US$'000
At 31 December 2019					
Investments in equity financial assets at FVTPL	-	8,295	-	8,295	8,295
Derivative financial assets designated as hedging instruments	2,804	-	-	2,804	2,804
Derivative financial assets not designated as hedging instruments	140	-	-	140	140
- Unrestricted cash	-	-	610,673	610,673	610,673
- Restricted cash	-	-	78,801	78,801	78,801
- Amounts due from related parties	-	-	4,916,454	4,916,454	4,916,454
- Trade and other receivables	-	-	83,694	83,694	83,694
Financial assets 31 December 2019	**2,944**	**8,295**	**5,689,622**	**5,700,861**	**5,700,861**
Financial liabilities measured at amortised cost					
Loans and borrowings - third parties	-	-	3,937,555	3,937,555	4,099,136
Amounts due to related parties	-	-	8,114,372	8,114,372	8,114,372
Lessee security deposits	-	-	113,596	113,596	112,285
Accrued maintenance liabilities	-	-	378,955	378,955	378,433
Lease liabilities	-	-	70,920	70,920	70,920
Derivative financial liabilities designated as hedging instruments	12,465	-	-	12,465	12,465
Derivative financial liabilities not designated as hedging instruments.	207	-	-	207	207
Trade and other payables	-	-	77,896	77,896	77,896
Financial liabilities 31 December 2019	**12,672**	**-**	**12,693,294**	**12,705,966**	**12,865,714**

	Fair value – hedging instruments 31 December 2018	Designated Mandatorily at FVTPL 31 December 2018	Financial assets or liabilities at amortised cost 31 December 2018 US$'000	Carrying amount 31 December 2018 US$'000	Fair value 31 December 2018 US$'000
At 31 December 2018					
Investments in equity financial assets at FVTPL	-	8,295	-	8,295	8,295
Derivative financial assets not designated as hedging instruments	6,089	-	-	6,089	6,089
- Unrestricted cash	-	-	565,379	565,379	565,379
- Restricted cash	-	-	124,226	124,226	124,226
- Amounts due from related parties	-	-	5,998,722	5,998,722	5,998,722
- Trade and other receivables	-	-	36,565	36,565	36,565
Financial assets 31 December 2018	**6,089**	**8,295**	**6,724,892**	**6,739,276**	**6,739,276**
Financial liabilities measured at amortised cost					
Loans and borrowings - third parties	-	-	4,858,681	4,858,681	4,863,207
Amounts due to related parties	-	-	8,613,160	8,613,160	8,613,160
Lessee security deposits	-	-	136,068	136,068	131,475
Accrued maintenance liabilities	-	-	347,312	347,312	346,320
Trade and other payables	-	-	109,212	109,212	109,212
Financial liabilities 31 December 2018	**-**	**-**	**14,064,433**	**14,064,433**	**14,063,374**

Notes to the consolidated financial statements

25. Financial instruments (continued)

(a) Carrying value and fair value of financial assets and liabilities (continued)

Loans and borrowings – third parties are valued using discounted cashflows and level 3 inputs. The cash flows are discounted using the weighted average cost of debt of AHL of 4.2% (31 December 2018: 4.5%).

IFRS 13 requires financial instruments to be classified by a fair value hierarchy that reflects the source of the inputs used in measuring their fair value:

Level 1: Unadjusted quoted prices in active markets for identical instruments.
Level 2: Market inputs, other than level 1 inputs that are observable either directly or indirectly.
Level 3: Inputs not based on observable market data.

The financial instruments measured at fair value through the Consolidated Statement of Profit or Loss and Other Comprehensive Income, being the derivative financial assets and financial liabilities shown above and Investments in debt instruments at FVOCI, and Investments in financial assets at FVTPL, fall between levels 1, 2 and 3 as at 31 December 2019 and at 31 December 2018. There were no movements in levels of financial instruments during the year ended 31 December 2019 and the year ended 31 December 2018.

The following table presents the Group's assets and liabilities that are measured at fair value as at 31 December 2019 and 31 December 2018:

	31 December 2019		
	Level 1 US$'000	**Level 2 US$'000**	**Level 3 US$'000**
Assets			
Investments in equity financial assets at FVTPL	-	-	8,295
Derivative financial assets designated as hedging instruments	-	2,804	-
Derivative financial assets not designated as hedging instruments	-	140	-
Total assets	**-**	**2,944**	**8,295**
Liabilities			
Derivative financial liabilities designated as hedging instruments	-	(12,465)	-
Derivative financial liabilities not designated as hedging instruments.	-	(207)	-
Total liabilities	**-**	**(12,672)**	**-**

	31 December 2018		
	Level 1 US$'000	**Level 2 US$'000**	**Level 3 US$'000**
Assets			
Investment in equity instruments at FVTPL	-	-	8,295
Derivative financial assets	-	6,089	-
Total assets	**-**	**6,089**	**8,295**
Liabilities			
Derivative financial liabilities	-	(1,646)	-
Total liabilities	**-**	**(1,646)**	**-**

Notes to the consolidated financial statements

25. Financial instruments (continued)

(b) Measurement of fair values - valuation techniques and significant unobservable inputs

The following table shows the valuation techniques used in measuring level 2 and level 3 fair values, as well as the significant unobservable inputs used.

Financial instruments measured at fair value

Type	Valuation techniques	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Interest rate derivatives	Market comparison technique: The fair values are based on broker quotes. Similar contracts are traded in an active market and the quotes reflect the actual transaction in similar instruments	Not applicable	Not applicable
Unlisted Investments in equity instruments at FVTPL	Discounted cash flow method	Independent appraisal values determining the cash flow to equity instruments. This is based off average appraised future base values ranging from US$1.5m to US$52.9m (31 December 2018: US$1.0m to US$52.9m).	10% increase/(decrease) in valuation would result in increase/(decrease) in fair value of US$1.7m and US$(1.7m) respectively (31 December 2018: US$1.4m and US$(1.4m)).
Unlisted Investments in equity instruments at FVTPL	Discounted cash flow method	Discount rate of 23% based on equity return rates of other aircraft for investments in similar underlying aircraft of the same age and condition.	10% increase/(decrease) in the discount rate would result in (decrease)/increase in fair value of US$(0.7m) and US0.8m respectively (31 December 2018: US$(0.8m) and US1.0m).

(c) Hedging activities and derivatives

The objective of the Group's hedging policy is to adopt a risk averse position with respect to changes in interest rates and to match when feasible lease income subject to fixed / variable rates to loan financing. Accordingly, the Group employs derivative financial instruments, principally interest rate swap and cap contracts to hedge the current and expected future interest rate payments on the Group's borrowings. Interest rate swaps are agreements in which a series of interest rate flows are exchanged with a third party over a prescribed period. The notional amount of a swap is not exchanged. Under the swap agreement, the Group makes fixed rate payments and receives floating rate payments to convert the floating rate borrowings to fixed rate obligations to better match the largely fixed rate cashflows from the leasing of aircraft. An interest rate cap is a derivative that protects the holder from rises in short-term interest rates by making a payment to the holder when an underlying interest rate (the "index" or "reference" interest rate) exceeds a specified strike rate (the "cap rate"). Caps are purchased for a premium and typically have expirations between 1 and 12 years. They may make payments to the holder on a monthly, quarterly or semi-annual basis, with the year generally set equal to the maturity of the index interest rate.

The counterparties to these agreements are highly rated financial institutions. In the unlikely event that the counterparties fail to meet the terms of the interest rate swap and cap contracts, the Group's exposure is limited. The Group does not anticipate any non-performance by the counterparties.

Notes to the consolidated financial statements

25. Financial instruments (continued)

(c) Hedging activities and derivatives (continued)

(i) Derivatives not designated as hedging instruments

The Group uses interest rate swap and interest rate cap contracts to manage some of its exposure to changes in interest rates which are not designated as cash flow hedges.

(ii) Derivatives designated as hedging instruments

The Group adopts a policy of ensuring that its interest rate risk exposure is appropriately hedged. This is achieved entering into fixed rate instruments, by borrowing at a floating rate to finance aircraft that are subject to floating rate lease revenue and by borrowing at a floating rate and using interest rate swaps as hedges of the variability in cash flows attributable to movements in interest rates. The Group applies a hedge ratio of 1:1.

The Group determines the hedging relationship between the hedging instrument and the hedged item based on a number of criteria including the reference interest rates, tenors, repricing dates and maturities and to notional or par amounts. The Group assesses whether the derivative designated in each hedging relationship is expected to be effective in offsetting changes in cash flows of the hedged item using they hypothetical derivative method. In these hedge relationships, the main sources of ineffectiveness are:

- differences in the repricing dates between the swaps and the borrowings
- differences in the timing of the cash flows of the hedged items and the hedging instruments
- the counterparties' credit risk differently impacting the fair value movements of the hedging instruments and hedged items
- changes to the forecasted amount of cash flows of hedged items and hedging instruments

At 31 December 2019, the amounts relating to items designated as hedged items were as follows:

	Change in value used for calculating hedge ineffectiveness US$'000	Cashflow hedge reserve US$'000	Balances remaining in the cash flow hedge reserve from hedging relationships for which hedge accounting is no longer applied US$'000
Variable rate loans and borrowings - third party...........	10,124	10,011	-

At 31 December 2018, the amounts relating to items designated as hedged items were as follows:

	Change in value used for calculating hedge ineffectiveness US$'000	Cashflow hedge reserve US$'000	Balances remaining in the cash flow hedge reserve from hedging relationships for which hedge accounting is no longer applied US$'000
Loans and borrowings - third party..............................	497	405	-

At 31 December 2019, the amounts related to items designated as hedging instruments were as follows:

	Notional amount US$'000	Carrying amount US$'000	Line item in the statement of financial position US$'000	Change in fair value used for measuring ineffectiveness for the year US$'000
Interest rate swaps....................................	528,050	2,805	Derivative financial assets	2,805
Interest rate swaps....................................	402,537	(12,465)	Derivative financial liabilities	(12,929)

Notes to the consolidated financial statements

25. Financial instruments (continued)

(c) Hedging activities and derivatives (continued)

(ii) Derivatives designated as hedging instruments (continued)

31 December 2018, the amounts related to items designated as hedging instruments were as follows:

	Notional amount US$'000	Carrying amount US$'000	Line item in the statement of financial position US$'000	Change in fair value used for measuring ineffectiveness for the year US$'000
Interest rate swaps	100,372	2,109	Derivative financial assets	1,149
Interest rate swaps	139,388	(1,646)	Derivative financial liabilities	(1,646)

During the year ended 31 December 2019, the effect of the cash flow hedge in the Consolidated Statement of Profit or Loss and Other Comprehensive Income was as follows:

	Total hedging gain/(loss) recognised in OCI US$'000	Ineffectiveness recognised in profit or loss US$'000	Line item in the statement of profit or loss US$'000	Cost of hedging recognised in OCI	Amount reclassified from OCI to profit or loss	Line item in the statement of profit or loss
Interest rate swaps	(10,124)	-	Finance expense	N/A	-	Finance expense

During the year ended 31 December 2018, the effect of the cash flow hedge in the Consolidated Statement of Profit or Loss and Other Comprehensive Income was as follows:

	Total hedging gain/(loss) recognised in OCI US$'000	Ineffectiveness recognised in profit or loss US$'000	Line item in the statement of profit or loss US$'000	Cost of hedging recognised in OCI	Amount reclassified from OCI to profit or loss	Line item in the statement of profit or loss
Interest rate swaps	(555)	-	Finance expense	N/A	-	Finance expense

(iii) Impact of hedging on equity

The following table provides a reconciliation of components of equity and analysis of OCI items net of tax resulting from cash flow hedge accounting:

	Cash flow hedge reserve US$'000
At 1 January 2018	960
Changes in fair value	(497)
Amount reclassified to profit or loss	-
Tax movement on reserves during the year	(58)
At 31 December 2018	**405**
At 1 January 2019	405
Changes in fair value	(10,124)
Tax movement on reserves during the year	(292)
At 31 December 2019	**(10,011)**

Notes to the consolidated financial statements

26. Financial risk management

Risk management framework:

The Board of AHL has formed a number of sub committees comprising both directors and management to appropriately monitor and evaluate the key risks of the business. The risk management committee is responsible for overseeing the Group's three executive risk committees: the portfolio risk committee, capital risk committee and operations risk committee. These executive risk committees are responsible for, among other things, monitoring counterparty credit risk, portfolio risk factors, adherence to capital allocation targets, maintenance exposures and lease expiry profiles; recommending liability and hedging strategies to the Group's Board; reviewing committed pipeline risk, capacity requirements, availability and cost of financing and capital markets activity; overseeing rating agency relationships; reviewing and approving the development of, and any subsequent modifications to, the core planning and analysis tools used by the business; and reviewing the thresholds of transactions for which the investment committee and the treasury and financing committee have responsibility. These risks include:

(a) Asset risk

The Group's primary business is the operating leasing of commercial aircraft. Operating leases are generally in the range of 5 to 12 years, and as a result the Group bears the risk of re-leasing or selling the aircraft. Should demand for aircraft decrease significantly for an extended period, and/or the value of the aircraft in the fleet reduces the Group may incur impairment charges.

This risk is mitigated by the Group's strategy of investing in modern and fuel efficient aircraft in operation with significant numbers of established operators. These assets have the most stable values. In addition, the Group employs personnel with significant experience of managing similar portfolios of aviation assets. The Group has an in-house capability and experience in remarketing and selling aircraft as may be required and has successfully sold a significant portion of its fleet at a gain in the past 6 years.

The Group undertakes a periodic review of the carrying values of its assets.

(b) Market risk

The group is exposed to market risk primarily related to foreign exchange rates and interest rates which may will affect the Group's income or the value of its holdings of financial instruments. The Group uses derivatives to manage market risks. Generally, the Group seeks to apply hedge accounting to manage volatility in profit or loss.

A fundamental review and reform of major interest rate benchmarks is being undertaken globally. There is uncertainty as to the timing and the methods of transition for replacing existing benchmark interbank offered rates (IBORs) with alternative rates.

As a result of these uncertainties, accounting judgement is involved in determining whether certain hedge accounting relationships that hedge the variability of interest rate risk due to expected changes in IBORs continue to qualify for hedge accounting as at 31 December 2019. IBOR continues to be used as a reference rate in financial markets and is used in the valuation of instruments with maturities that exceed the expected end date for IBOR. Therefore, the Group believes the current market structure supports the continuation of hedge accounting as at 31 December 2019.

Aviation authorities have grounded the Boeing 737 MAX aircraft restricting it from commercial service after two well-publicized aircraft accidents. The Group have 5 Boeing 737 MAX 8 aircraft under lease and have contracts to purchase an additional 103 Boeing 737 MAX Aircraft. Should the Boeing 737 MAX aircraft remain grounded by the aviation authorities for a prolonged period this could lead to a reduction in demand for the aircraft and as a result of any reputational harm suffered by the model it could become more difficult to lease or sell such aircraft, resulting in lower lease rates for such aircraft or negatively impact the residual values of the aircraft.

We have assessed the 5 Boeing 737 MAX aircraft that are under lease and our pre-delivery payments for our committed Boeing 737 MAX aircraft for impairment by comparing its carrying amount to the higher of value in use and fair value less cost to sell. No impairment was recorded. We continue to monitor the Boeing 737 MAX return to service and will work to establish appropriate delivery dates for the undelivered aircraft.

Notes to the consolidated financial statements

26. Financial risk management (continued)

(b) Market risk (continued)

Currency risk

The Group's reporting currency is US Dollar, and all of its leases and loans are US Dollar denominated. The Group has some exposure to currency movement in that it incurs operating expenses in non US Dollar currencies, including Euro, Sterling, Australian Dollar, Singapore Dollar, Hong Kong Dollar, Japanese Yen, Swiss Franc and Norwegian Kronor. The quantum of exposure to currency movements are small in nature and as such no sensitivity analysis has been presented.

Interest rate risk

A number of the Group's aircraft leases are on a fixed rental basis. The Group seeks to minimise its exposure to interest rates by either availing of fixed rate funding or using interest rate derivative contracts.

A number of the Group's leases have rentals linked to floating interest rates, and so an increase in interest expense due to higher interest rates is expected to be offset by increased rentals. The Group also has some exposure to increases in the costs of its lenders funding in the inter bank markets.

The effect of a 50 and 100 basis point increase in interest rate, assuming all other variables would be held constant, would be as follows:

50 BPS	**31 December 2019**	**31 December 2018**
	US$'000	**US$'000**
Increase in EBT	2,485	56
	2,485	**56**

100 BPS	**31 December 2019**	**31 December 2018**
	US$'000	**US$'000**
Increase in EBT	5,014	1,066
	5,014	**1,066**

The interest rate caps held by the Group at 31 December 2019 were as follows:

	2020	**2021**	**2022**	**2023**	**2024**	**2025**	**Thereafter**
	US$'000	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**
Average notional amounts	26,234	24,509	22,784	8,984	-	-	-
Average strike rate	3.17%	3.17%	3.17%	1.32%	-	-	-

The interest rate swaps held by the Group at 31 December 2019 were as follows:

	2020	**2021**	**2022**	**2023**	**2024**	**2025**	**Thereafter**
	US$'000	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**
Average notional amounts	339,654	302,019	253,994	190,755	107,777	42,400	17,713
Average strike rate	2.19%	2.19%	2.25%	2.55%	2.40%	2.10%	1.31%

The interest rate caps held by the Group at 31 December 2018 were as follows:

	2019	**2020**	**2021**	**2022**	**2023**	**2024**	**Thereafter**
	US$'000	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**
Average notional amounts	458,882	426,174	341,705	163,205	55,071	22,114	5,694
Average strike rate	3.08%	3.07%	3.08%	3.22%	3.50%	3.80%	3.53%

Notes to the consolidated financial statements

26. Financial risk management (continued)

(b) Market risk (continued)

The interest rate swaps held by the Group at 31 December 2018 were as follows:

	2019 US$'000	2020 US$'000	2021 US$'000	2022 US$'000	2023 US$'000	2024 US$'000	Thereafter US$'000
Average notional amounts	321,570	272,322	234,866	198,648	150,545	94,131	19,494
Average strike rate	2.25%	2.32%	2.35%	2.40%	2.53%	2.35%	1.15%

The interest rate profile of the Group's financial assets and liabilities is set out in the tables below:

	Fixed rate US$'000	Floating rate US$'000	Non interest bearing US$'000	Total US$'000
At 31 December 2019				
Investments in equity financial assets at FVTPL	-	-	8,295	8,295
Derivative financial assets	-	-	2,944	2,944
Unrestricted cash	79,979	275,075	255,619	610,673
Restricted cash	37,924	3	40,874	78,801
Trade and other receivables	-	-	83,694	83,694
Amounts due from related parties	4,916,424	-	-	4,916,454
Financial assets 31 December 2019	**5,034,327**	**275,078**	**391,427**	**5,700,861**
Loans and borrowings - third party	2,687,929	1,249,626	-	3,937,555
Derivative financial liabilities	-	-	207	207
Lessee security deposits	-	-	113,596	113,596
Accrued maintenance liabilities	-	-	378,955	378,955
Trade and other payables	-	-	77,896	77,896
Lease liabilities	70,920	-	-	70,920
Amounts due to related parties	8,114,372	-	-	8,114,372
Financial liabilities 31 December 2019	**10,873,221**	**1,249,626**	**570,654**	**12,693,501**

	Fixed rate US$'000	Floating rate US$'000	Non interest bearing US$'000	Total US$'000
At 31 December 2018				
Investments in equity financial assets at FVTPL	-	-	8,295	8,295
Derivative financial assets	-	-	6,089	3,980
Unrestricted cash	94,399	458,101	12,879	564,073
Restricted cash	39,259	-	84,967	122,010
Trade and other receivables	-	-	36,565	36,408
Amounts due from related parties	5,998,722	-	-	7,039,739
Financial assets 31 December 2018	**6,132,380**	**458,101**	**148,795**	**7,774,505**
Loans and borrowings - third party	3,277,332	1,581,349	-	4,858,681
Lessee security deposits	-	-	136,068	136,068
Accrued maintenance liabilities	-	-	347,312	347,312
Trade and other payables	-	-	136,204	136,204
Amounts due to related parties	8,613,160	-	-	8,683,160
Derivative financial liabilities	-	-	1,646	1,646
Financial liabilities 31 December 2018	**11,890,492**	**1,581,349**	**621,230**	**14,093,071**

Notes to the consolidated financial statements

26. Financial risk management (continued)

(c) Credit risk

The nature of the Group's business undertakings expose the Group to credit risk on its counterparts. The Group has a formal quarterly risk review process, focusing both on airline lessees and the credit risk the Group bears on its borrowings and financial assets. The Group has a dedicated credit risk management team in place which reviews the credit risk of its counterparts.

Each new lessee is assessed prior to the Group entering into commitments, and the assessment is considered by the Group's Board or the Investment Committee as part of the investment approval decision. In addition, many of the Group's leases contain credit risk protection via security deposits in the form of cash and letter of credit deposits. Credit risk is monitored and managed by the business on an ongoing basis, with regular review of credit performance, receivable monitoring and entering into deposits with generally "A" rated financial institutions.

The Group also has significant unrestricted cash and restricted cash balances of US$682.8m (31 December 2018: US$686m) and derivative financial instruments valued at US$2.9m (31 December 2018: US$4.0m) included in its financial assets at 31 December 2019, and these deposits and other financial derivatives give rise to credit risk on amounts due from counterparties. Credit risk is managed by limiting the aggregate amount and duration of exposure to any one counterparty and reviewing the credit ratings of these counterparties on a regular basis. The derivative financial instruments are revalued to market value on a monthly basis. The Group typically does not enter into deposits with a duration of more than 3 months.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure before security. The maximum exposure to credit risk at the reporting dates was as follows:

	31 December 2019 US$'000	31 December 2018 US$'000
Cash and cash equivalents	610,673	565,379
Restricted cash	78,801	124,226
Amounts due from related parties	4,916,454	5,998,722
Derivative financial assets	2,944	6,089
Trade and other receivables	83,694	36,565
Total	**5,692,566**	**6,730,981**

At 31 December 2019, the total credit exposure after security relating to lease revenue and maintenance reserves amounts to US$5,657.2m (31 December 2018: US$7,938m).

Notes to the consolidated financial statements

26. Financial risk management (continued)

(c) Credit risk (continued)

Impairment of financial assets

The Group has two types of financial assets that are subject to the expected credit loss ("ECL") model:

- Trade receivables
- Amounts due from related parties

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Trade receivables
The Group applies the IFRS 9 simplified approach to measuring expected credit losses ("ECLs") which uses a lifetime expected loss allowance for all trade receivables. The letters of credit and security deposits are considered an integral part of trade receivables and considered in the calculation of impairment.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate. Details of concentration of lease revenue and property, plant and equipment are included in notes 4 and 11. The risk management committee has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, if they are available, financial statements, credit agency information, industry information and in some cases bank references. Limits are established for each customer and reviewed quarterly. Any transactions which exceed those limits require approval from the Group's Board or the Investment Committee as part of the investment approval decision. The Group limits its exposure to credit risk from trade receivables by establishing a maximum payment period of one and three months for individual and corporate customers respectively. A significant portion of the Group's customers have been transacting with the Group for over four years, and an immaterial amount of these customers' balances have been written off or are credit-impaired at the reporting date. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or a legal entity, their geographic location, industry, trading history with the Group and existence of previous financial difficulties. The Group monitors the economic environment for all customers and takes actions to limit its exposure to customers in countries experiencing particular economic volatility. The distribution of lease receivables by geographic region is in line with percentages disclosed in note 4.

The Group's process starts by developing an internal risk rating for its customers, which is based upon our proprietary models using data derived from customer financial statements, agency ratings, payment history information and other customer characteristics. The Group then evaluates the potential risk of loss for the specific leasing transaction in the event of customer default, which takes into account such factors as applicable collateral value, historical loss and recovery rates for similar transactions, and its collection capabilities. The internal risk ratings process and models the Group use are subject to regular monitoring and internal controls. The frequency of rating updates is set by its credit risk policy.

To measure ECLs for trade receivables, the Group uses a historic default rate calculated as a percentage based on the lease invoices issued over a period of 30 months and the corresponding historical loss rates experienced within this period. The Group uses four quartile airline rating model which assigns quartile ratings to airlines based on quantitative and qualitative criteria, including forward looking analyses of macro-economic conditions and issues specific to certain airlines. The Group determines that the airlines at risk of default are quartile four airlines. ECLs are calculated by applying the historic default rate to quartile four trade receivables less any cash or letter of credit security packages. Details of the Group's security packages are outlined in note 21.

Notes to the consolidated financial statements

26. Financial risk management (continued)

(c) Credit risk (continued)

At 31 December 2019, the loss allowance for trade receivables was determined as follows:

	Gross carrying amount US$'000
Quartile 1	34,487
Quartile 2	13,616
Quartile 3	2,222
Quartile 4	33,369
Total	**83,694**

At 31 December 2018, the loss allowance for trade receivables was determined as follows:

	Gross carrying amount US$'000
Quartile 1	26,936
Quartile 2	2,365
Quartile 3	1,621
Quartile 4	5,643
Total	**36,565**

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 90 days past due or where the trade receivables were in excess of the security packages held by the Group. For these trade receivables, an expected loss rate of 4.83% is applied to amounts in excess of security packages for quartile four customers to calculate the expected credit loss for trade receivables at the year ended 31 December 2019. At 31 December 2019, the cash shortfall net of security packages is for quartile four customers is US$11m (Year ended 31 December 2018: US$0.6m).

Impairment losses on trade receivables written off against lease revenue in the Consolidated Statement of Profit or Loss and Other Comprehensive Income. Subsequent recoveries of amounts previously written off are credited against the same line item.

The movement in the loss allowance for trade receivables during the year was as follows:

	31 December 2019 US$'000	31 December 2018 US$'000
Loss allowance		
At 1 January	-	-
Loss allowance recognised in profit or loss during the year	3,423	1,133
Amounts written off	(3,423)	(1,133)
At 31 December	-	-

Notes to the consolidated financial statements

26. Financial risk management (continued)

(c) Credit risk (continued)

During the year ended 31 December 2019, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The Group considered that there was evidence of impairment if any of the following indicators were present:

- Significant financial difficulties of the debtor
- Probability that the debtor will enter bankruptcy or financial reorganisation
- Default or late payments

Receivables for which an impairment provision was recognised were written off against the provision amount when there was no expectation of recovering additional cash.

Investments in debt instruments at FVOCI
During the year ended 31 December 2018, the Group invested in listed debt securities issued by an airline customer which was classified as a debt financial asset at FVOCI. Subsequently, the airline entered into default, and the investment was impaired and fully written off to the consolidated statement of profit or loss. The loss allowance for debt investments at FVOCI is recognised in profit or loss and reduces the fair value loss otherwise recognised in OCI.

The movement in the loss allowance for debt instruments at FVOCI during the year was as follows:

	31 December 2019 US$'000	31 December 2018 US$'000
Loss allowance		
At 1 January	-	-
Increase in loss allowance recognised in profit or loss during the year	-	-
Impairment losses	-	5,690
At 31 December	-	5,690

Amounts due from related parties
The Group's investments in related party loans are considered to have low credit risk and the loss allowance recognised during the period was therefore limited to 12 months expected credit losses on non-secured amounts. The Group considers instruments to have low credit risk when there is a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term. The loss allowance for related party loans is recognised in profit or loss and reduces carrying amount of the loans. As the AHL Group supports the operations of the subsidiary entities by way of capital injections and shareholder loans and due to the profitability of the AHL Group, the Group has not recognised any loss allowance in respect of its investment in related party loans during the year ended 31 December 2019 (Year ended 31 December 2018: US$Nil).

Net impairment losses on financial assets recognised in profit or loss

During the year ended 31 December 2019, the following losses were recognised in profit or loss in relation to financial assets:

	31 December 2019 US$'000	31 December 2018 US$'000
Loss allowance for trade receivables	3,423	-
Impairment losses on financial assets at FVOCI	-	5,690
Total impairment losses on credit risk items	**3,423**	**5,690**

Notes to the consolidated financial statements

26. Financial risk management (continued)

(d) Liquidity risk

The Group has funded a significant part of its operations with debt financing. The ability of the Group to continue to operate is dependent upon its ability to meet its payment obligations and adhere to covenant requirements under the respective loan agreements, which are dependent, among other things, upon the factors outlined above.

If the Group cannot meet its obligations or if it breaches certain covenants under the various debt arrangements, it may be subject to contract breach damages suits, it may be required to restrict or apply all cash flows from aircraft pledged as collateral for certain debt facilities to meet principal and interest payments and/or to paydown such debt facilities on an accelerated basis, and may even be unable to continue to operate on a going concern basis. Based on all information available at present, the directors believe that the Group has sufficient liquidity to meet its obligations as they fall due and that it continues to be appropriate to prepare the financial statements on a Going Concern basis of preparation.

As outlined in note 20, the Group has principal repayments due under its existing loans from external parties which fall due during the next 12 month period. These will be financed via operational cash flows (rental and trading activities), new debt financing and additional equity drawdowns as may be required. As a result of its growth strategy, at 31 December 2019, the Group had committed to purchase 337 aircraft (31 December 2018: 339), scheduled to deliver from 2020 based upon fixed price agreements which are adjusted for inflation and price escalation formulas. Capital commitments at 31 December 2019 amounted to approximately US$18.2bn (31 December 2018: US$19.0bn). The Directors anticipate that a significant portion of the aggregate purchase price for the purchase of aircraft will be funded by incurring additional debt. The exact amount of the indebtedness to be incurred will depend upon the actual purchase price of the aircraft, which can vary due to a number of factors, including inflation, manufacturer discounts and the percentage of the purchase price of the aircraft which must be financed.

The Group also has third party loans and borrowings that bear fixed interest rates determined at the inception of the agreement. A significant change in interest rates could have a material adverse impact on the fair value of the Group's loans and borrowings. However, the Group records these loans at the amortised cost and therefore, the Group's future performance would not be impacted by any future rate changes.

Notes to the consolidated financial statements

26. Financial risk management (continued)

(d) Liquidity risk (continued)

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	Carrying amount US$'000	Contractual cashflow US$'000	Due within one year US$'000	Due between two and five years US$'000	Due after five years US$'000
31 December 2019					
Non-derivative financial liabilities					
Loans and borrowings - third party...........	3,937,555	4,559,106	477,729	2,951,390	1,129,987
Amounts due to related parties	8,114,372	8,114,372	-	-	8,114,372
Trade and other payables..........................	77,896	77,896	77,896	-	-
Lessee security deposits	113,596	113,596	3,141	14,173	96,283
Accrued maintenance liabilities................	378,955	378,955	16,503	165,476	196,976
Total non-derivative financial liabilities	**12,622,374**	**13,243,925**	**575,269**	**3,131,039**	**9,537,618**
Derivative financial liabilities					
Interest rate swaps	12,672	-	-	-	-
Total derivative financial liabilities	**12,672**	**-**	**-**	**-**	**-**

	Carrying amount US$'000	Contractual cashflow US$'000	Due within one year US$'000	Due between two and five years US$'000	Due after five years US$'000
31 December 2018					
Non-derivative financial liabilities					
Loans and borrowings - third party...........	4,858,681	5,575,650	619,676	3,569,649	1,386,325
Amounts due to related parties	8,613,160	8,613,160	71,921	-	8,541,239
Trade and other payables..........................	65,414	65,414	65,414	-	-
Lessee security deposits	136,068	136,068	1,248	12,172	82,764
Total non-derivative financial liabilities.	**13,673,323**	**14,390,292**	**758,259**	**3,581,821**	**10,010,328**
Derivative financial liabilities					
Interest rate swaps	1,646	-	-	-	-
Total derivative financial liabilities	**1,646**	**-**	**-**	**-**	**-**

It is not expected that the cash flows in the maturity analysis could occur significantly earlier, or at significantly different amounts.

Notes to the consolidated financial statements

26. Financial risk management (continued)

(e) Capital management

Although the Group itself is not regulated it aims to maintain capital resources commensurate with the nature, scale and risk profile of its business. It regards its capital as the total equity as shown on the Consolidated Statement of Financial Position.

(f) Master netting or similar agreements

The Group enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other. In certain circumstances - e.g. when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only single net amount is payable in settlement of all transactions.

The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreements.

	Gross amounts of financial instruments shown net in the Statement of Financial Position 31 December 2019 US$'000	Related financial instruments that are offset in the Statement of Financial Position 31 December 2019 US$'000	Net amount 31 December 2019 US$'000
At 31 December 2019			
Financial assets			
Other investments, including derivatives			
- Derivative financial assets	2,944	-	2,944
	2,944	**-**	**2,944**
Financial liabilities			
Other liabilities, including derivatives			
- Derivative financial liabilities	(12,672)	-	(12,672)
	(12,672)	**-**	**(12,672)**

	Gross amounts of financial instruments shown net in the Statement of Financial Position 31 December 2018 US$'000	Related financial instruments that are offset in the Statement of Financial Position 31 December 2018 US$'000	Net amount 31 December 2018 US$'000
At 31 December 2018			
Financial assets			
Other investments, including derivatives			
- Derivative financial assets	7,346	(1,257)	6,089
	7,346	**(1,257)**	**6,089**
Financial liabilities			
Other liabilities, including derivatives			
- Derivative financial liabilities	(2,903)	1,257	(1,646)
	(2,903)	**1,257**	**(1,646)**

Notes to the consolidated financial statements

27. List of subsidiaries

At 31 December 2019, the owned subsidiaries of the Group were as follows:

	Shareholding	Country of Incorporation
Aderry Aviation Limited	100%	Ireland
Altenburg Aviation Limited	0%	Cayman Islands
Amareleja Aviation Limited	0%	Ireland
Aureastream Aircraft Leasing Limited	100%	Bermuda
Avolon Aerospace (Dubai) Limited	100%	Dubai International Financial Centre Free Zone
Avolon Aerospace (Funding 2) Limited - Avolon Aerospace (Funding 11) Limited	100%	Cayman Islands
Avolon Aerospace (Hamilton) AOE 1 Limited - Avolon Aerospace (Hamilton) AOE 3 Limited	100%	Bermuda
Avolon Aerospace (Hong Kong) Limited	100%	Hong Kong
Avolon Aerospace (Ireland) AOE 1 Limited	0%	Ireland
Avolon Aerospace (Ireland) AOE 2 Limited - Avolon Aerospace (Ireland) AOE 13 Limited	100%	Ireland
Avolon Aerospace (Ireland) AOE 14 Designated Activity Company	100%	Ireland
Avolon Aerospace (Ireland) AOE 15 Limited - Avolon Aerospace (Ireland) AOE 17 Limited	100%	Ireland
Avolon Aerospace (Ireland) AOE 20 Limited	100%	Ireland
Avolon Aerospace (Ireland) AOE 22 Limited	100%	Ireland
Avolon Aerospace (Ireland) AOE 41 Limited	100%	Ireland
Avolon Aerospace (Ireland) AOE 58 Limited - Avolon Aerospace (Ireland) AOE 59 Limited	100%	Ireland
Avolon Aerospace (Ireland) AOE 63 Limited	100%	Ireland
Avolon Aerospace (Ireland) AOE 65 Limited	100%	Ireland
Avolon Aerospace (Ireland) AOE 69 Limited - Avolon Aerospace (Ireland) AOE 70 Limited	100%	Ireland
Avolon Aerospace (Ireland) AOE 75 Limited - Avolon Aerospace (Ireland) AOE 79 Limited	100%	Ireland
Avolon Aerospace (Ireland) AOE 82 Limited	100%	Ireland
Avolon Aerospace (Ireland) AOE 84 Limited - Avolon Aerospace (Ireland) AOE 86 Limited	100%	Ireland
Avolon Aerospace (Ireland) AOE 93 Limited	100%	Ireland
Avolon Aerospace (Ireland) AOE 95 Limited - Avolon Aerospace (Ireland) AOE 100 Limited	100%	Ireland
Avolon Aerospace (Ireland) AOE 102 Limited	100%	Ireland
Avolon Aerospace (Ireland) AOE 104 Limited - Avolon Aerospace (Ireland) AOE 106 Limited	100%	Ireland
Avolon Aerospace (Ireland) AOE 109 Limited - Avolon Aerospace (Ireland) AOE 112 Limited	100%	Ireland
Avolon Aerospace (Ireland) AOE 119 Limited	100%	Ireland
Avolon Aerospace (Ireland) AOE 123 Limited	100%	Ireland
Avolon Aerospace (Ireland) AOE 125 Limited - Avolon Aerospace (Ireland) AOE 129 Limited	100%	Ireland
Avolon Aerospace (Ireland) AOE 132 Limited - Avolon Aerospace (Ireland) AOE 139 Limited	100%	Ireland
Avolon Aerospace (Ireland) AOE 141 Limited - Avolon Aerospace (Ireland) AOE 142 Limited	100%	Ireland
Avolon Aerospace (Ireland) AOE 145 Limited - Avolon Aerospace (Ireland) AOE 147 Limited	100%	Ireland
Avolon Aerospace (Ireland) AOE 151 Limited - Avolon Aerospace (Ireland) AOE 156 Limited	100%	Ireland
Avolon Aerospace (Ireland) AOE 159 Limited - Avolon Aerospace (Ireland) AOE 163 Limited	100%	Ireland
Avolon Aerospace (Ireland) AOE 166 Limited - Avolon Aerospace (Ireland) AOE 173 Limited	100%	Ireland
Avolon Aerospace (New York) Incorporation	100%	USA
Avolon Aerospace (Warehouse 1) Limited	100%	Cayman Islands
Avolon Aerospace AOE 2 (Labuan) Limited	100%	Labuan

Notes to the consolidated financial statements

27. List of subsidiaries (continued)

	Shareholding	Country of Incorporation
Avolon Aerospace AOE 4 (Labuan) Limited - Avolon Aerospace AOE 11 (Labuan) Limited	100%	Labuan
Avolon Aerospace AOE 1 Limited	100%	Ireland
Avolon Aerospace AOE 4 Limited – Avolon Aerospace AOE 6 Limited	100%	Cayman Islands
Avolon Aerospace AOE 9 Limited	100%	Cayman Islands
Avolon Aerospace AOE 11 Limited – Avolon Aerospace AOE 12 Limited	100%	Cayman Islands
Avolon Aerospace AOE 14 Limited	100%	Cayman Islands
Avolon Aerospace AOE 17 Limited	100%	Cayman Islands
Avolon Aerospace AOE 19 Limited – Avolon Aerospace AOE 23 Limited	100%	Cayman Islands
Avolon Aerospace AOE 29 Limited	100%	Cayman Islands
Avolon Aerospace AOE 32 Limited – Avolon Aerospace AOE 34 Limited	100%	Cayman Islands
Avolon Aerospace AOE 39 Limited – Avolon Aerospace AOE 40 Limited	100%	Cayman Islands
Avolon Aerospace AOE 44 Limited	100%	Cayman Islands
Avolon Aerospace AOE 47 Limited – Avolon Aerospace AOE 50 Limited	100%	Cayman Islands
Avolon Aerospace AOE 52 Limited	100%	Cayman Islands
Avolon Aerospace AOE 55 Limited	100%	Cayman Islands
Avolon Aerospace AOE 57 Limited – Avolon Aerospace AOE 58 Limited	100%	Cayman Islands
Avolon Aerospace AOE 62 Limited – Avolon Aerospace AOE 64 Limited	100%	Cayman Islands
Avolon Aerospace AOE 70 Limited	100%	Cayman Islands
Avolon Aerospace AOE 73 Limited – Avolon Aerospace AOE 76 Limited	100%	Cayman Islands
Avolon Aerospace AOE 78 Limited	100%	Cayman Islands
Avolon Aerospace AOE 80 Limited – Avolon Aerospace AOE 81 Limited	100%	Cayman Islands
Avolon Aerospace AOE 84 Limited – Avolon Aerospace AOE 87 Limited	100%	Cayman Islands
Avolon Aerospace AOE 90 Limited – Avolon Aerospace AOE 93 Limited	100%	Cayman Islands
Avolon Aerospace AOE 95 Limited – Avolon Aerospace AOE 98 Limited	100%	Cayman Islands
Avolon Aerospace AOE 100 Limited – Avolon Aerospace AOE 101 Limited	100%	Cayman Islands
Avolon Aerospace AOE 103 Limited – Avolon Aerospace AOE 104 Limited	100%	Cayman Islands
Avolon Aerospace AOE 106 Limited	100%	Cayman Islands
Avolon Aerospace AOE 108 Limited – Avolon Aerospace AOE 109 Limited	100%	Cayman Islands
Avolon Aerospace AOE 111 Limited	100%	Cayman Islands
Avolon Aerospace AOE 113 Limited – Avolon Aerospace AOE 114 Limited	100%	Cayman Islands
Avolon Aerospace AOE 116 Limited – Avolon Aerospace AOE 119 Limited	100%	Cayman Islands
Avolon Aerospace AOE 121 Limited – Avolon Aerospace AOE 123 Limited	100%	Cayman Islands
Avolon Aerospace AOE 125 Limited – Avolon Aerospace AOE 127 Limited	100%	Cayman Islands
Avolon Aerospace AOE 129 Limited – Avolon Aerospace AOE 130 Limited	100%	Cayman Islands
Avolon Aerospace AOE 132 Limited	100%	Cayman Islands
Avolon Aerospace AOE 134 Limited	100%	Cayman Islands
Avolon Aerospace AOE 136 Limited	100%	Cayman Islands
Avolon Aerospace AOE 138 Limited – Avolon Aerospace AOE 142 Limited	100%	Cayman Islands
Avolon Aerospace AOE 144 Limited – Avolon Aerospace AOE 155 Limited	100%	Cayman Islands
Avolon Aerospace AOE 157 Limited – Avolon Aerospace AOE 164 Limited	100%	Cayman Islands
Avolon Aerospace AOE 166 Limited – Avolon Aerospace AOE 171 Limited	100%	Cayman Islands
Avolon Aerospace Finance (Luxembourg) II S.á r.l.	100%	Luxembourg
Avolon Aerospace Finance I Limited	100%	Cayman Islands
Avolon Aerospace France 7 SAS	0%	France
Avolon Aerospace France 8 SAS	100%	France
Avolon Aerospace France 14 SAS – Avolon Aerospace France 15 SAS	100%	France
Avolon Aerospace France 17 SAS - Avolon Aerospace France 20 SAS	100%	France
Avolon Aerospace Funding 1 (Luxembourg) S.á r.l.	100%	Luxembourg
Avolon Aerospace Funding 4 (Luxembourg) S.á r.l. - Avolon Aerospace Funding 5 (Luxembourg) S.á r.l.	100%	Luxembourg
Avolon Aerospace Leasing Limited	100%	Cayman Islands
Avolon Aerospace Limited	100%	Cayman Islands

Notes to the consolidated financial statements

27. List of subsidiaries (continued)

	Shareholding	Country of Incorporation
Avolon Aerospace Norway 2 AS - Avolon Aerospace Norway 3 AS	100%	Norway
Avolon Aerospace Singapore Pte. Limited	100%	Singapore
Avolon Aerospace Sweden 1 AB - Avolon Aerospace Sweden 2 AB	100%	Sweden
Avolon Aerospace UK 5 Limited	100%	UK
Avolon Aerospace UK 7 Limited	100%	UK
Avolon Finance Lease (Tianjin) Company Limited	100%	China
Avolon Funding 3 (Ireland) Limited	100%	Ireland
Avolon Leasing (AB1) Limited - Avolon Leasing (AB2) Limited	100%	Cayman Islands
Avolon Leasing 4375 Limited	0%	Cayman Islands
Avolon Leasing Ireland 1 Limited	100%	Ireland
Capesthorne Aviation DAC	100%	Ireland
Centennial Aviation (France) 1, S.á r.l.	100%	France
Chatsworth Aviation Limited	100%	Ireland
Clady Aviation Limited	0%	Cayman Islands
Clea Aviation Limited	0%	Cayman Islands
Coguish Aviation Limited	0%	Cayman Islands
Cometstream Aircraft Leasing Limited	0%	Ireland
Conn Aviation Limited	0%	Ireland
Corrib Aviation Limited	100%	Cayman Islands
Crolly Aviation Limited	0%	Ireland
Daire Aviation Limited	0%	Ireland
Darcy Aviation Limited	0%	Cayman Islands
Derryveagh Aviation Limited	0%	Ireland
Drumgun Aviation Limited	0%	Ireland
Dungloe Aviation Limited	100%	Ireland
Dunlewy Aviation Leasing 1 Limited - Dunlewy Aviation Leasing 2 Limited	0%	Cayman Islands
Dunlewy Aviation Limited	0%	Cayman Islands
Emscote Aviation Limited	100%	Ireland
Ennell Aviation Limited	0%	Cayman Islands
Eske Aviation Limited	0%	Ireland
Feeagh Aviation Limited	0%	Ireland
Fhada Aviation Limited	100%	Ireland
Finn Aviation Limited	100%	Ireland
Gawsworth Aviation Limited	0%	Ireland
Gill Aviation Limited	0%	Ireland
Glenveagh Aviation Limited	100%	Ireland
Gur Aviation Limited	0%	Cayman Islands
Leane Aviation Limited	100%	Ireland
Mardal Aviation Limited	0%	Ireland
Nafooey Aviation Limited	0%	Ireland
Piscesstream Aircraft Leasing Limited	100%	Ireland
Rikka Aviation Limited	0%	Cayman Islands
Sheelin Aviation Limited	0%	Cayman Islands
Slipstream Aircraft Leasing Limited	100%	Bermuda
Strangford Aviation Limited	0%	Ireland
Tatton Aviation Limited	0%	Ireland

* Entities with a 0% shareholding represent orphan entities which are consolidated into the Group.

Notes to the consolidated financial statements

28. Related party transactions

A party is considered to be related to the Group if the party is a person or close member of that person's family and that person (i) has control or joint control over the Group; (ii) has significant influence over the Group; or (iii) is a member of the key management personnel of the Group or a parent of the Group. At 31 December 2019, AHL is a 70% owned, indirect subsidiary of Bohai through GALC and 30% owned by ORIX Aviation. HNA is the controlling entity of Bohai, thus, through these interests, HNA Group is the Company's ultimate controlling shareholder.

If the party is an entity, they are related if any of the following conditions apply: (i) the entity and the Group are members of the same group; (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity); (iii) the entity and the Group are joint ventures of the same third party; (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity; (v) the entity is controlled or jointly controlled by a person identified as related; (vi) a person identified as related has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity), (vii) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group and (viii) the entity, or any member of a group of which it is part, provides key management personal services to the Group or to the parent of the Group.

(a) Transactions with key management personnel

Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including the Directors of the Company.

Key management personnel compensation during the year ended 31 December 2019 was as follows:

	Year ended 31 December 2019 €'000	Year ended 31 December 2018 €'000
Short term benefits	34,409	30,549
Post employment benefits	274	283
Other long term benefits	-	-
Share based payments	-	-
Total	**34,683**	**30,832**

During the year ended 31 December 2019, US$0.01m (Year ended 31 December 2018: US$0.1m) of director fees were incurred.

(b) Transactions with related parties

During the year ended 31 December 2019, the Group participated in the following transactions with related parties:

(i) Amounts due from Hong Kong Aviation Capital ("HKAC")

During the year ended 31 December 2016, the Group granted a loan facility to Hong Kong Aviation Capital Limited ("HKAC"), a fellow subsidiary of Avolon Holdings Limited, in order to finance the acquisition cost of aircraft and general business expenses. At 31 December 2019, the total unpaid principal advanced was US$2,076m (31 December 2018: US$2,302m) and during the year ended 31 December 2019 the Group recorded interest income of US$106m (Year ended 31 December 2018: US$96m) under this agreement at a rate of 4.7% per annum (Year ended 31 December 2018: 4.6%) which remains due at year end.

(ii) Amounts due from Park Aerospace Holdings Limited ("Park")

During the year ended 31 December 2017, the Group granted loan facilities to Park Aerospace Holdings Limited ("Park"), a fellow subsidiary of Avolon Holdings Limited, in order to finance the acquisition cost of aircraft. At 31 December 2019, the total unpaid principal advanced was US$2,272m (31 December 2018: US$3,469m) and during the year ended 31 December 2019 the Group recorded interest income of US$197m (Year ended 31 December 2018: US$60m) under this agreement at a rate of 4.6% per annum (Year ended 31 December 2018: 4.6%) which remains due at year end.

Notes to the consolidated financial statements

28. Related party transactions (continued)

(b) Transactions with related parties (continued)

(iii) Lease of 10 aircraft to Hainan Airlines ("Hainan")

During the year ended 31 December 2019, the Group leased a total of 10 aircraft (Year ended 31 December 2018: 5) to Hainan, an indirect wholly-owned subsidiary of the HNA Group, 2 of which was sub-leased from Lvyun No.4 (Tianjin) Leasing Co., Ltd (Lvyun No.4), 1 of which was sub-leased from Tianjin Air Capital No.10 Leasing Co., Ltd and 1 of which was sub-leased from Tianjin Changjiang Ershisihao Leasing Company Limited ("Changjiang Leasing"), all of which are indirect subsidiaries of the HNA Group. For the year ended 31 December 2019, the Group recognised lease revenue of US$116.8m (Year ended 31 December 2018: US$38.1m) and a letter of credit security of US$3m from Hainan in respect of these leases. At 31 December 2019, the Group also holds cash lessee security deposits of US$33.5m relating to these aircraft (31 December 2018: US$12.9m in respect of 5 aircraft held). At 31 December 2019, the Group also holds cash lessee security deposits of US$1.0m relating to 2 aircraft which are yet to be delivered (31 December 2018: US$1.0m). The Group had a receivable balance of $62.5m with Hainan Airlines as at 31 December 2019 (31 December 2018: US$Nil). At 31 December 2019, the Group had received no prepaid lease rentals from Hainan amounting (31 December 2018: US$2.7m).

(iv) Lease of 1 aircraft to Fuzhou Airlines ("Fuzhou")

During the year ended 31 December 2019, the Group leased 1 aircraft (Year ended 31 December 2018: 1) to Fuzhou, an indirect wholly-owned subsidiary of the HNA Group. For the year ended 31 December 2019, the Group recognised lease revenue of US$4.1m (Year ended 31 December 2018: US$4.1m) from Fuzhou in respect of this lease. At 31 December 2019, the Group holds cash lessee security deposits of US$1.1m (31 December 2018: US$1.1m) relating to this aircraft. The Group had a receivable balance of $1.7m with Fuzhou as at 31 December 2019 (31 December 2018: US$Nil).

(v) Lease of 1 to Tianjin Airlines ("Tianjin")

During the year ended 31 December 2019, the Group leased 1 aircraft (Year ended 31 December 2018: 2) to Tianjin, an indirect wholly-owned subsidiary of the HNA Group. For the year ended 31 December 2019, the Group recognised lease revenue of US$2.8m (Year ended 31 December 2018: US$7.5m) from Tianjin in respect of these leases. At 31 December 2019, the Group holds cash lessee security deposits of US$0.5m (31 December 2018: US$1.5m). The Group had a receivable balance of US$0.2m with Tianjin as at 31 December 2019 (31 December 2018: US$Nil). At 31 December 2019, the Group had received no prepaid lease rentals from Tianjin (31 December 2018: US$0.6m).

(vi) Lease of 2 aircraft to Aigle Azur S.A.S. ("Aigle Azur")

During the year ended 31 December 2019, the Group leased 2 aircraft to Aigle Azur (Year ended 31 December 2018: 2), an entity in which the HNA Group held an interest. For the year ended 31 December 2019, the Group recognised lease revenue of US$18.3m from Aigle Azur in respect of these leases (Year ended 31 December 2018: US$2.5m). During the year ended 31 December 2019, Aigle Azur went into liquidation. At 31 December 2019, the Group recognised cash lessee security deposits of US$1.0m as lease revenue relating to these aircraft as these were no longer deemed repayable (At 31 December 2018, the Group held cash lessee security deposits of US$1.0m). At 31 December 2019, the Group recorded a loss allowance of US$0.2m against the receivable balance from Aigle Azur (31 December 2018: US$Nil).

(vii) Lease of 4 aircraft to Lucky Air Co., Ltd ("Lucky")

During the year ended 31 December 2019, the Group leased 4 aircraft (Year ended 31 December 2018: nil) to Lucky, an indirect wholly owned subsidiary of the HNA Group, 3 of which were sub-leased to Lvyun No. 3 (Tianjin) Leasing Co. Ltd. ("Lvyun No. 3"), which is also an indirect wholly-owned subsidiary of the HNA Group. The Group recognised lease revenue of US$28.9m (Year ended 31 December 2018: US$Nil) from Lucky in respect of these leases. At 31 December 2019, the Group holds cash lessee security deposits of US$6.8m relating to these aircraft. At 31 December 2018, the Group holds cash lessee security deposits of US$0.6m relating to 1 aircraft which was yet to be delivered, this aircraft was delivered during the year ended 31 December 2019. At 31 December 2019, the Group had a receivable balance of US$12.9m with Lucky (31 December 2018: US$Nil).

28. Related party transactions (continued)

(b) Transactions with related parties (continued)

(viii) Lease of 6 aircraft to Beijing Capital Airlines ("Capital Airlines")

During the year ended 31 December 2019, the Group delivered 2 aircraft (Year ended 31 December 2018: 0) to Capital Airlines, an indirect wholly owned subsidiary of the HNA Group, 1 of which was sub-leased from Lvyun No. 18 (Tianjin) Leasing Co., Ltd ("Lvyun No. 18") which is also an indirect wholly-owned subsidiary of the HNA Group. For the year ended 31 December 2019, the Group recognised lease revenue of US$9.5m (Year ended 31 December 2018: US$Nil) from Capital Airlines in respect of these leases. At 31 December 2019, the Group holds cash lessee security deposits of US$4.2m (31 December 2018: US$Nil). At 31 December 2019, the Group had a US$10.3m receivable balance from Capital Airlines and Lvyun No. 18 (31 December 2018: US$Nil).

(ix) Transactions with ORIX

During the year ended 31 December 2019, the Group entered into an agreement to sell 8 aircraft to ORIX (year ended 31 December 2018: US$Nil). During the year ended 31 December 2019, the Group sold all of these aircraft to ORIX.

(x) Service support arrangements

During the year ended 31 December 2016, the Group entered into service support agreements with HKAC whereby the Group agreed to provide management and other services to HKAC in the running of the business. In respect of these services, the Group earned US$70m in service fee income from HKAC for the year ended 31 December 2019 (Year ended 31 December 2018: US$49m). During the year ended 31 December 2017, the Group entered into service support agreements with Park whereby the Group agreed to provide management and other services to Park in the running of the business. In respect of these services, the Group earned US$164m in service fee income from Park for the year ended 31 December 2019 (Year ended 31 December 2018: US$156m).

(xi) Amounts due to HKAC

During the year ended 31 December 2017, the Group entered into an unsecured facility with HKAC in order to finance the acquisition cost of aircraft and general business expenses. At 31 December 2019, the total principal unpaid loan amount at year end to HKAC was US$3,191m (31 December 2018: US$3,626m) with interest accruing at a rate of 4.5% (2018: 4.6%). The interest expense for this loan amounted to US$188m for the year ended 31 December 2019 (Year ended 31 December 2018: US$167m).

(xii) Amounts due to PARK

During the year ended 31 December 2017, the Group entered into unsecured facilities with Park relating to the financing of aircraft. At 31 December 2019, the total principal unpaid loan amount at year end to Park was US$148m (31 December 2018: US$3,376m). The interest expense for this loan amounted to US$129m for the year ended 31 December 2019 (Year ended 31 December 2018: US$82m). In addition, during the year ended 31 December 2018, the Group entered into a short term deposit agreement with Park for an amount of US$61.3m with interest accruing at a rate of 1.21%. The interest expense on this short term deposit agreement was US$732k (2017: US$37k). This was repaid during the year ended 31 December 2019.

(xiii) Amounts due to Avolon Holdings Funding Limited ("AHFL")

During the year ended 31 December 2019, the Group entered into loan agreements with AHFL for an amount of US$4,775m (2018: US$1,500m) with a weighted average interest rate accruing at a rate of 4.77% (2018: 5.25%). The interest expense on these loans was US$189m (2018: US$37m).

(xiv) Transactions with HKAC

During the year ended 31 December 2019, the Group sold 3 aircraft to HKAC (2018: 1) for a gain of US$8m (2018: US$Nil). During the year ended 31 December 2019, the Group acquired no aircraft from HKAC (2018: 1 aircraft for $32m consideration).

(xv) Transactions with PARK

During the year ended 31 December 2019, the Group sold 5 aircraft to Park (2018: 22) for a gain of US$11m (2018: US$6m). During the year ended 31 December 2019, the Group acquired no aircraft from Park (2018: 5 aircraft for US$185m consideration).

Notes to the consolidated financial statements

28. Related party transactions (continued)

(b) Transactions with related parties (continued)

(xvi) Transactions with Avolon Capital Partners Limited ("ACP")

During the year ended 31 December 2018, the Group received a distribution of US$2.8m from ACP, a Cayman Islands entity in which Avolon is a 25% joint venture partner, following the disposal of all of ACP's aircraft during the year ended 31 December 2017. During the year ended 31 December 2019, the Group recognised a share of losses in relation to ACP of US$0.1m (year ended 31 December 2018: share of profits US$1.4m). Please see note 13 for more information.

(xvii) Amount due from related parties

At 31 December 2019, the Group had current receivables due of US$569m from related parties (31 December 2018: US$251m).

29. Commitments and contingent liabilities

a) Capital commitments:

At 31 December 2019, the Group had committed to purchase a total of 337 new aircraft (31 December 2018: 339), scheduled to deliver from January 2020 based upon fixed price agreements which are adjusted for inflation and price escalation formulas. Capital commitments at 31 December 2019 amounted to approximately US$18.2bn (31 December 2018: US$19.0bn) subject to a reduction due to any cancellations.

All of these purchase commitments to purchase new aircraft are based upon binding master agreements with each of Airbus S.A.S. ("Airbus") or Boeing Company ("Boeing") or with airlines in the form of sale and leasebacks.

The breakdown of capital commitments are as follows:

	31 December 2019 $'000	31 December 2018 $'000
2019	-	4,879,060
2020	3,033,348	3,861,725
2021	3,060,036	4,055,564
2022	3,153,727	3,259,246
2023	3,504,007	3,319,994
2024 and thereafter	5,435,804	4,264,318
Total	**18,186,922**	**23,639,907**

The Directors anticipate that a portion of the aggregate purchase price for the purchase of aircraft will be funded by incurring additional debt. The exact amount of the indebtedness to be incurred will depend upon the actual purchase price of the aircraft, which can vary due to a number of factors, including inflation, manufacturer discounts and the percentage of the purchase price of the aircraft which must be financed. The Directors base the aggregate list prices of its committed aircraft based on current aircraft prices in the aircraft leasing market and aviation industry, as well as information received from third party sources.

b) Guarantees:

The Group is financed by a number of secured and unsecured loans, totalling US$3.9bn (31 December 2018: US$5.0bn) and at an average nominal interest rate of 3.6% (31 December 2018: 4.0%). The secured loans are guaranteed by some or all of a mortgage on the aircraft, share pledge over the aircraft owning entity, assignment of lease contracts and in some cases a limited guarantee from the Group. Based on the projected cash flows from the assets, the directors believe that these loans will continue to perform for the foreseeable future. At 31 December 2019, the Group had US$4,057.5m (31 December 2018: US$3,702m) in undrawn debt facilities. The conditions of the Group's availability of the undrawn debt facilities vary between the debt facilities. The Group has US$3,152.5m (31 December 2018: US$2,240m) of undrawn unsecured debt facilities. The Group can avail of US$905m (31 December 2018: US$1,462m) of secured undrawn debt facilities. The Group is charged an interest rate of between 0.25% and 0.40% (31 December 2018: 0.50%) on undrawn balances. The conditions attributable to the utilisation of some of these facilities are permitted aircraft types, country and region limits and age limits. See note 20 for further information

Notes to the consolidated financial statements

29. Commitments and contingent liabilities (continued)

c) Contingent liabilities:

There were no contingent liabilities that require disclosure in the consolidated financial statements (31 December 2018: US$Nil).

30. Comparative figures

Comparative figures have been reclassified, where necessary to conform to current year presentation. The current financial statements are for the year ended 31 December 2019.

31. Subsequent events

The outbreak of COVID-19 has led to travel restrictions and cancellation of flights impacting a number of our customers across the globe. While it is difficult to predict the extent of the impact from COVID-19, the outbreak and the related decreased demand for aircraft travel is significantly impacting our customers, being the airlines, which could lead to their inability to meet their lease payment obligations to us, lead to cancellations and no extension of their lease contracts with us which could negatively affect our financial condition, cash flow and results from operating activities.

Due to the current challenging environment, the Directors have considered the impact on the Group's use of the going concern basis of preparation at the date of signing of these financial statements by evaluating all cash inflows and outflows for the Group over the coming year under the following assumptions;

- Current unrestricted cash on hand balance available,
- Additional liquidity from available undrawn debt facilities,
- Deferral of all contractually committed lease cash inflows for the next 9 months;
- Forecasted cash outflows for capital expenditure for the next 12 months; and
- Forecasted cash outflows for all contractual debt and lease obligations and selling, general and administrative expenses for the next 12 months

Based on this analysis and all information available at present, the Directors believe that the Group has sufficient liquidity to meet its obligations as they fall due and that it continues to be appropriate to prepare the financial statements on a Going Concern basis of preparation.

There were no other significant events subsequent to 31 December 2019 that require amendment to or disclosure in the consolidated financial statements.

32. Approval of financial statements

The board of managers approved these consolidated financial statements on 27 March 2020.