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

Quarterly Aviation Industry Performance

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Prepared by: Strategic Planning department

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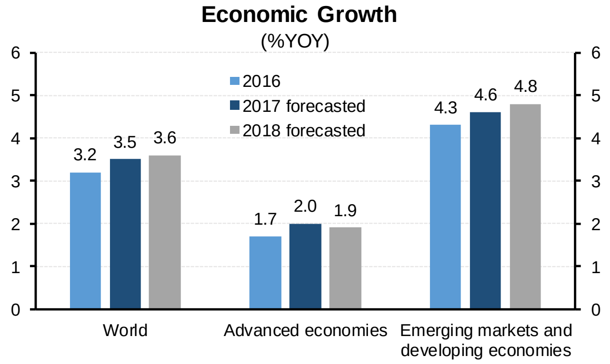
Global recovery on track in early 2017



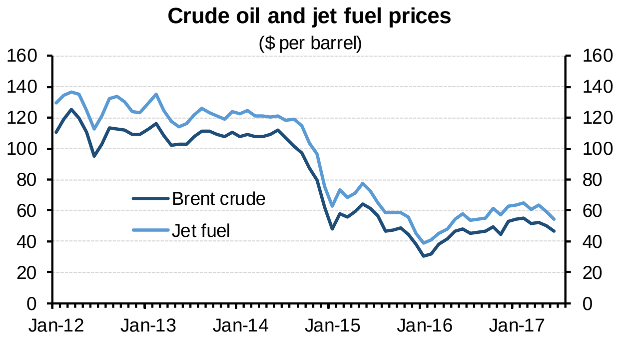
Source: IMF World Economic Outlook

The recovery in world economic growth remains on track, with global activity strengthening in the first quarter of 2017. The IMF expects global output to pick-up to 3.5% and 3.6% in 2017 and 2018 respectively – reflecting improving conditions for both advanced and emerging economies.

The projected recovery in advanced economies will be driven by higher growth in the US, as well as stronger momentum in the Euro area. Even though US fiscal policy is expected to be less expansionary than previously assumed, US growth is still projected to accelerate to above 2%. Moreover, despite further Fed rate increases, monetary policy tightening is expected to remain gradual. European economies are projected to see a more pronounced recovery, given the stronger momentum seen in early 2017.

Economic activity in emerging and developing countries is expected to accelerate. This will be primarily driven by commodity importers, but also by a gradual pick-up in some commodity exporters. Asian economies are expected to see robust growth – led by India and China, growth in emerging Europe is likely to improve on the back of a recovery in Turkey and Russia, and Latin America is projected to see a gradual recovery as several large countries exit their recessions. Meanwhile, the Middle East is expected to slow considerably this year – reflecting a slowdown in oil activity – before recovering next year.

Oil prices weaken in recent months



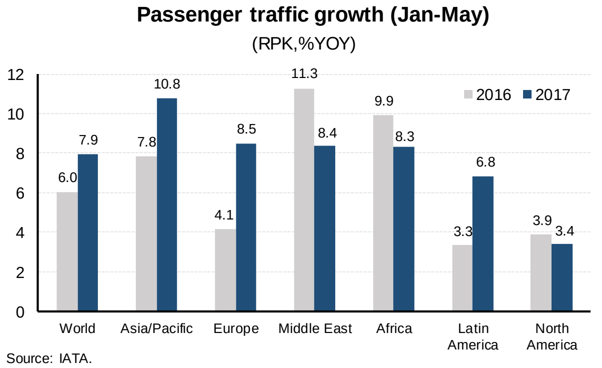
Source: EIA (Energy Information Administration)

Oil prices have declined since the start of 2017, falling back below $50 per barrel by mid-year. After hitting an 18-month high of $55 in February 2017, Brent crude prices have since slipped to a 7-month low of $46 in June. Oil prices are now lower than their levels last year for the first time in 2017 – down 4% in year-on-year terms. Nevertheless, prices for 1H2017 averaged $52 per barrel, around $12 higher than the same period last year. The US energy agency (EIA) expects Brent crude prices to average $51 in 2017, up from $44 in 2016.

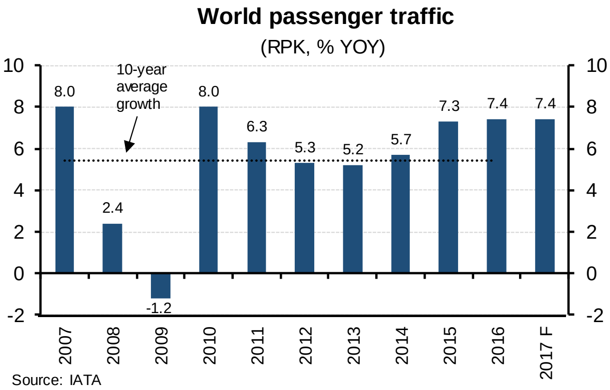
The downward trend in oil prices since early 2017 has been driven largely by rising US shale output. Moreover, a rise in OPEC production added additional downward pressure on prices. This came despite the group reaching an agreement in May to extend a 1.8 million barrel/day output cut until March 2018. The increase in OPEC supplies resulted mainly from increased output in Libya and Nigeria – two OPEC members exempted from the production curbs.

Jet fuel prices also softened during the first half, but are expected to average higher in 2017 than last year. Fuel prices were down 6% year-on-year in June 2017. Nevertheless, IATA (The International Air Transport Association) expects prices to average $64 per barrel this year, 23% higher than last year. This will result a rise in operating costs for airlines globally, as well as an increase in air fares – as higher costs feed into higher prices.

Air travel sees strong growth in 1H2017

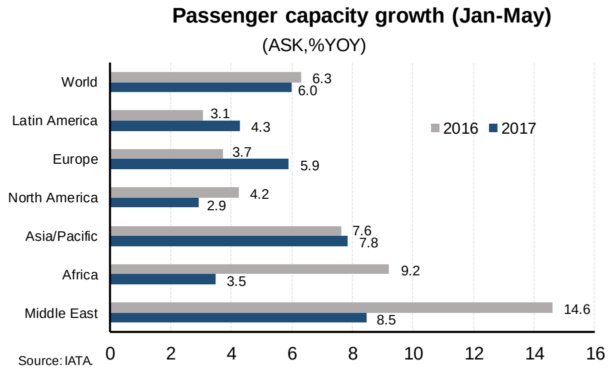


Global air traffic grew by an impressive 8% in the first 5 months of 2017 – outpacing the 6% pace seen in the same period of last year. The strong growth in traffic this year has been driven by a combination of a broad-based pick-up in global economic activity, as well as lower air fares. While the demand stimulation from cheap air fares remains, stronger economic conditions will likely be the key driver of air traffic growth in 2017. Most regions saw improved traffic growth, with the exception of the Middle East and Africa.

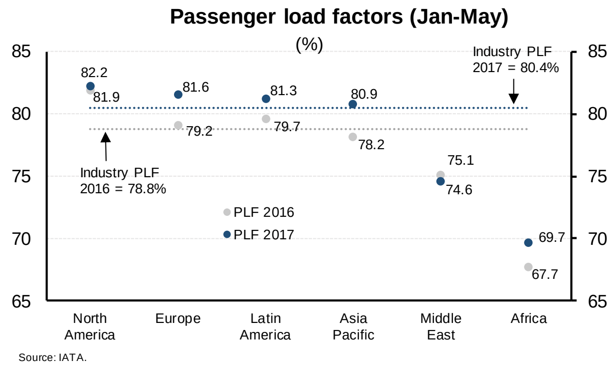


In light of the robust performance in global air travel so far this year, IATA has significantly upgraded its 2017 traffic projections. IATA modified its 2017 forecast by more than two percentage points – from 5.1% to 7.4%. It now expects traffic to continue to grow at above historic trends – given stronger economic growth and still substantial price stimulation. If travel demand proves as strong as predicted, it will mark the third consecutive year of traffic growth in excess of 7%.

Load factors at all-time highs in 1H2017

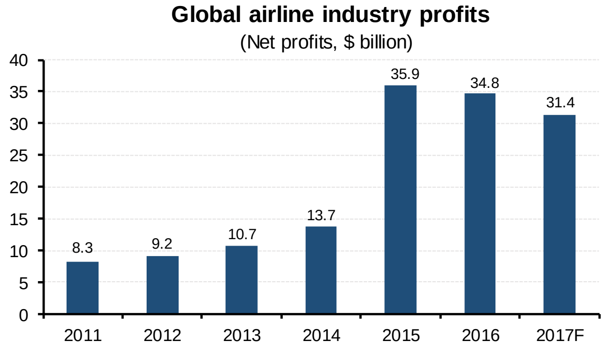


Global capacity grew at a robust 6% in the first 5 months of 2017, only slightly slower than last year. European and Latin American carriers increased the pace of capacity expansion, given the ongoing recovery in their economies. Meanwhile, Middle Eastern and African carriers saw a significant slowdown in capacity additions – in response to slowing traffic in their regions. The Middle East, in particular, has suffered disrupting factors this year. This includes the ban on electronic devices on flights to the US – which have been lifted of late – as well as the recent diplomatic rift between Qatar and its GCC neighbors.



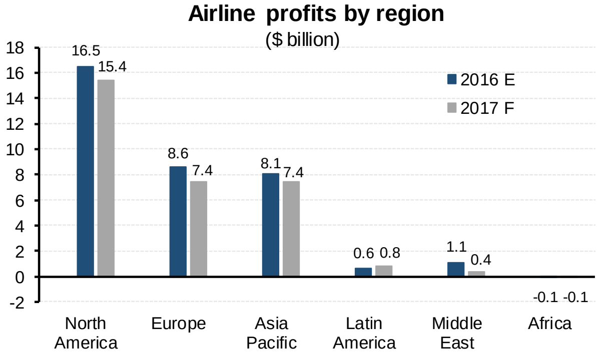
Despite robust expansion in capacity, load factors have remained at all-time highs of above 80% – thanks to stronger traffic growth rates. All regions, except the Middle East, saw improved load factors in early 2017. IATA expects traffic growth to continue to outpace capacity growth – helping sustain record load factors. Persistent high achieved load factors will also likely support airline financial performance.

Airline profits to remain strong in 2017



Source: IATA

Thanks to the improved outlook for traffic growth this year, IATA have raised their forecast for global airline profits in 2017. IATA now see airlines posting collective profits of $31.4 billion – an upgrade of $1.6 billion from their previous forecast, and just $3.4 billion below 2016 profits. Despite lower profits, 2017 will still be one of the most profitable years – behind 2015 and 2016.



Source: IATA

The expected decline in 2017 profits is attributed to higher costs and low yields. Rising fuel costs are increasing operational costs, while airlines are enduring low passenger yields as air fares remain relatively cheap. Nevertheless, IATA believes that the downward trend in yields – which has persisted for several years – has stabilized, reflecting a pick-up in the global economy and higher input costs. Passenger yields, or air fares, are still expected to fall this year – but at a much more modest pace than seen in previous years. IATA projects a 2% decline in passenger yields in 2017, compared to a drop of 9% last year.