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

Quarterly Aviation Industry Performance

3Q2017

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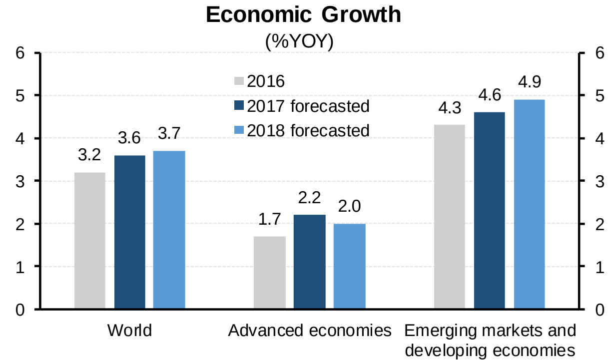
Global economy strengthens in 2017



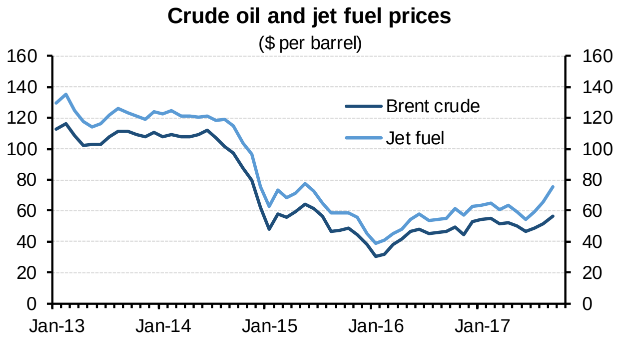
Source: IMF World Economic Outlook

Global economic activity is strengthening, with global growth projected to rise to 3.6% in 2017 and 3.7% in 2018. The IMF (International Monetary Fund) has made upward revisions to the forecasts, and now expects improved growth prospects in both advanced economies and emerging markets.

Advanced economies are expected to see a strong rebound in 2017, with the notable pick-up likely to be broad-based. The forecasts reflect stronger activity in the United States and many euro-area countries. This improved outlook is based on strong first half of 2017 performance. Growth in advanced economies is expected to accelerate to 2.2% in 2017, before edging down slightly to 2% next year. For 2018, the forecast assumes moderate fiscal policy tightening in advanced economies – reflecting projected tightening in Japan, the UK, and to a lesser extent, the US.

Meanwhile, economic activity in emerging markets is expected to accelerate over the next two years. Growth is projected to reach almost 5% in 2018 – its highest level in 5 years. This reflects a recovery in key emerging economies and higher domestic demand in China. Several large economies in Latin America and emerging Europe – including Brazil, Turkey and Russia – are expected to see a notable recovery, while growth in China and emerging Asia will continue to remain strong. Economic activity is projected to improve in all country groups, expect the Middle East – as a result of a contraction in oil sector output.

Oil prices climb up in recent months



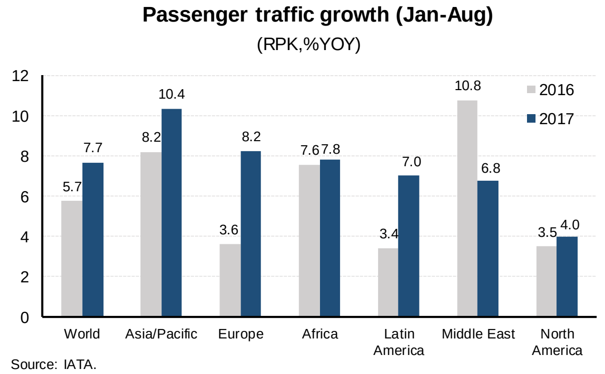
Source: EIA (Energy Information Administration)

Oil prices have trended higher in recent months, after weakening in the first half of the year. Brent crude prices climbed back up during the third quarter by some $10, reaching $56 per barrel by September 2017 – around the same level seen at the start of the year. Overall, prices for the first nine months of 2017 are 24% higher than their levels last year. The US Energy Agency (EIA) expects Brent crude prices to average $52 this year, around 20% higher than last year. The EIA expect prices to remain broadly stable in 2018, averaging around $54.

Several factors have caused oil markets to tighten in recent months. This reflects a combination of stronger global demand conditions, a weaker US dollar (which drives up dollar-denominated oil prices), and ongoing supply constraints. OPEC members, along with Russia, are reportedly leaning towards extending output cuts by nine months – this would keep 1.8 million barrels a day off the market through the whole of next year. The oil cartel is scheduled to meet on November 30th.

Similarly, jet fuel prices soared to their highest level in more than two years. By September 2017, fuel prices were 36% higher than their levels last year. IATA (The International Air Transport Association) expects prices for the year to average around 20% higher year-on-year for 2017 as a whole – putting upward pressure on operating costs for airlines, as well as on air fares for passengers.

Faster growth in air travel so far this year



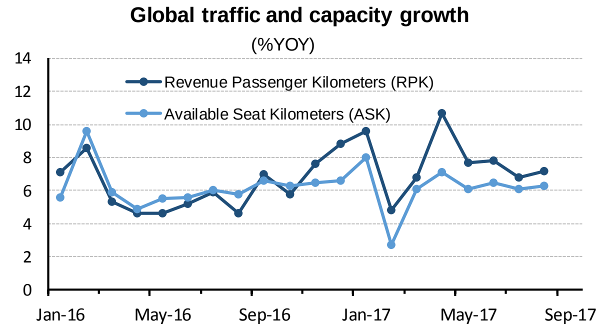
Source: IATA.

Global air traffic has accelerated so far this year, and 2017 is on course to be another year of strong traffic growth. Passenger traffic grew by almost 8% in the first 8 months of 2017, significantly faster than the rate seen in the same period of the previous year. This has been driven partly by the stronger global economic backdrop.

However, traffic growth is expected to moderate due to an easing in some demand drivers. This partially reflects a reduced degree of stimulus from lower air fares – given the recent rise in fuel costs and the resulting upward pressure on fares. As a result, passenger growth is expected to moderate towards the end of the year, and is projected to average around 7.4% for 2017 as a whole – in line with the avergae rate seen in the previous year.

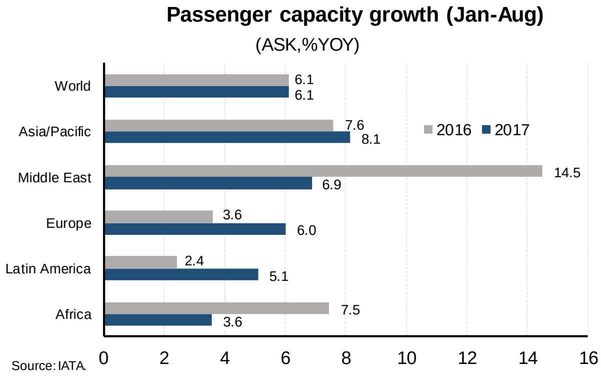
All regions, except the Middle East, have seen a stronger performance in traffic growth rates. Europe and Latin America have witnessed the largest improvements, as a result of strengthening economic conditions in both regions. Meanwhile, traffic in the Middle East has been severely affected this year, partly due to an easing in the pace of growth in nonstop services flown by some of the airlines in the region. This has allowed other regions to overtake the Middle East in terms of traffic growth. Asia-Pacific now leads other regions as the fastest growing aviation market.

Traffic growth outstrips capacity growth



Source: IATA.

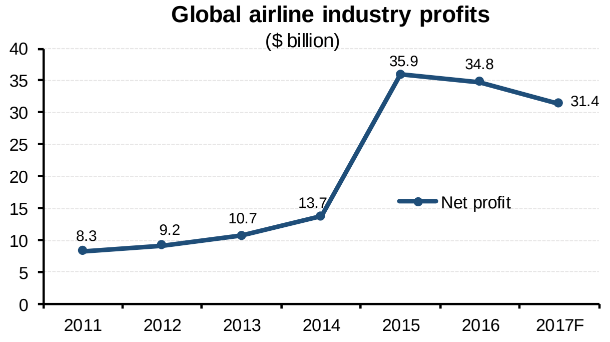
During the past year, global traffic growth has trended at a faster pace than capacity growth. The rate of capacity expansion by airlines globally averaged 6% in the first 8 months of 2017, compared to 8% growth in global traffic during the same period. This has allowed industry load factors to reach historically high levels – average load factors stood at 84.5% in August 2017. However, given the expected moderation in air travel demand, capacity growth may begin to match or even exceed traffic growth. This could begin to put downward pressure on passenger load factors and on airlines' bottom-line.



Source: IATA.

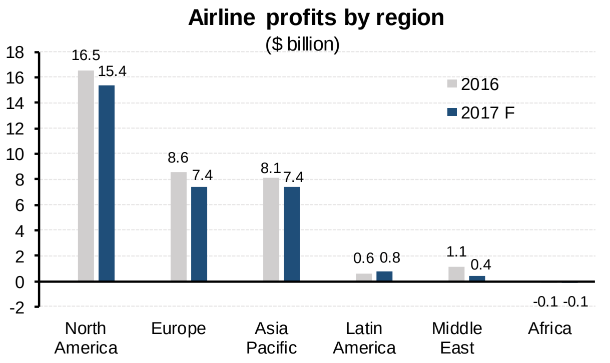
Regional capacity expansion saw large variations in performance. Middle East carriers have significantly reduced the pace of capacity additions as they struggle with weakening traffic – Asia-Pacific now leads as the fastest region in terms of capacity expansion. Meanwhile, Latin American and European carriers have seen the largest improvement in the rate of capacity growth – in line with their improving economies.

Airline profits slip slightly, but still high



Source: IATA

Global airline profits are expected to ease slightly this year, but will remain historically high. IATA sees airlines posting collective profits of $31.4 billion in 2017, compared to $34.8 billion last year. Despite this, 2017 will still be one of the most profitable years – behind 2015 and 2016. North American and European carriers are expected to see the largest declines, though will continue to deliver the best financial performance. The only region expected to see an improvement is Latin America, due to the anticipated recovery in economic conditions.



Source: IATA

Profits are expected to be affected by rising fuel costs and low air fares. Nevertheless, the impact of the latter is expected to begin to fade. Passenger yields, or air fares, have continued to trend upwards during 2017. This reflects a number of factors including stronger travel demand conditions as well as upward pressure on input costs, especially fuel. Although IATA still expects passenger yields to continue to decline this year, this will be at a much more modest pace than seen over the past few years.