

# ***CALC***

China Aircraft Leasing Group Holdings Limited

(Incorporated under the laws of the Cayman Islands with limited liability)

Stock code: 01848

## ***Strategic Resolve Enduring Growth***



# **2025**

## **RISK MANAGEMENT REPORT**

# RISK MANAGEMENT REPORT

## 1 MAIN FEATURES OF RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives and ensuring that the company establishes and maintains appropriate and effective risk management and internal control systems and review their effectiveness. Such risks include material risks relating to ESG. The Board oversees management in the design, implementation and monitoring of the risk management and internal control systems. Such internal control systems are designed to manage instead of eliminating the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss. In this connection, the Board ensures the adequacy of resources, staff qualifications and experiences, training programs and budget for the accounting, internal audit and financial reporting functions, as well as those relating to the Group's ESG performance and reporting.

The internal control system is designed to achieve a robust management of material and overall risks in pursuit of the Group's business objectives.

The Board operates within the clearly defined terms of reference, and has appropriate committees established, namely, Strategy Committee, Audit Committee, Nomination Committee and Remuneration Committee to oversee risk and internal control activities. Each of these Committees also have clearly defined terms of reference.

The Board aims at achieving an appropriate balance between taking risks and generating returns for shareholders while executing its responsibility for ongoing monitoring of risk and internal controls.

Our Audit Committee is designated to oversee the risk management and internal control processes, particularly, standards of financial reporting, risk management and internal controls.

On the operational level, the Aviation Risk Management team oversees the operational and business risks of the aircraft leasing business. On the Group level, the internal audit function directly reports to the Audit Committee for independent monitoring and reporting of risks and controls.

The Group has established the following objectives of risk management and internal control:

- (i) Continue to optimize its business model, integrating it with the Group's enhanced corporate governance structure to reduce the inherent risks in its business activities, such as liquidity risk and credit risk;
- (ii) Continue to leverage its business network to effectively enhance its industry knowledge so as to reduce the probability of and the impact from defaulted and discontinued lease transactions; and
- (iii) Continue to cultivate a strong risk management corporate culture throughout the organization. The Group has implemented its risk management system and policies aligned with the business model and strategic dimension.

## RISK MANAGEMENT REPORT

### Business model dimension

The Group's business is organized and operated on transaction basis to ensure each transaction is reviewed from different perspectives, facilitating stringent selection of suitable aircraft assets and rigorous review of credit assessment and approval.

### Strategic dimension

Risk management initiatives are led by the Board (through its Audit Committee) and executed by the CEO and the senior management team, through an independent internal audit function.

The Group's risk management and internal control framework is designed to minimize the risks in achieving the Group's strategic objectives. The key principles of the framework are as follows:

- The Board and the Management shall promote a culture to identify, assess and report risks in an open, transparent and objective manner.
- The priority of the Group is to protect its long-term and sustainable interests.

Risk management is embedded within all businesses and operations of the Group. The Group expects all individual behavior to demonstrate and share the culture and core values of the Group. All employees have the responsibility of upholding the Group's risk and control culture and supporting effective risk management to deliver its strategy.

The Group operates a "three lines of defense" framework for managing and identifying risks.

The first line of defense against undesirable outcomes is undertaken by the business function and the respective line managers. Department heads of all business areas are responsible for implementing and maintaining appropriate controls.

Line management is supported and monitored by middle and back office functions like, Transaction Support, Finance and Accounting, Legal, Company Secretary, Human Resources, Information Technology and Aviation Risk Management, which constitute the second line of defense. This line of defense monitors and facilitates the implementation of effective risk management practices by risk owners and reports risk related information throughout the organization.

The third line of defense is carried out by the internal audit function. It provides an independent review on the operation of controls.

On top of the three lines of defense, the Board reviews the effectiveness of the Group's risk management and internal control system, with the assistance of Audit Committee, which covers all material controls including financial, operational and compliance controls, and the risk management system.

## RISK MANAGEMENT REPORT

## 2 ANNUAL REVIEW OF THE RISK MANAGEMENT AND INTERNAL CONTROL

On behalf of the Board and the Audit Committee, the internal audit function carried out the annual review of the effectiveness of the Group's risk management and internal control system for the year ended 31 December 2025. The results were reported to the Audit Committee and the Board. The Board acknowledged that the risk management and internal control system of the Group during the review period were effective and adequate.

The annual review conducted by the internal audit function is set out as follows:

### 2.1 Ongoing Monitoring of Risk and Internal Control

#### 2.1.1 *Scope and quality*

During the year, the Board reviewed the business of the Group through its regular meetings in order to ensure that business risks had been considered, assessed and managed as an integral part of the business. There was an ongoing process for identifying, evaluating and managing the Group's significant risks. The Group's risk assessment process included the monitoring of key strategic, financial, compliance, reporting and ESG risks. In addition, the Group reviewed the impact of any changes and developments on its risk profile, strategic risk and reputation and the work of its internal audit function.

The impact and likelihood of each significant risk was evaluated with reference to associated measures and key performance indicators. The adequacy of the risk mitigation plans was assessed and, if necessary, improvements were made.

#### 2.1.2 *Extent and frequency of communication*

The Audit Committee held regular meetings on a regular basis and reviewed the risk and internal control situations to assess the effectiveness of the relevant management of the Group.

Risks and risk events are captured by the business and reported to the second line of defense. Specific reports and periodic updates are submitted to the Board after the review by the Audit Committee, if necessary. Issues would be raised when there were control failures, weaknesses and inefficient processes identified or through continuous monitoring reviews by the second and third line of defense teams.

### 2.2 Significant Control Failings or Weaknesses

The Group has underlying procedures to handle significant control failures or weaknesses, which include material adverse event assessment, mitigation plan and follow-up action. Significant control failure is required to be reported by senior management to the Audit Committee and the Board. No significant control failures or weaknesses were identified during the year upon the internal audit function's annual review.

## RISK MANAGEMENT REPORT

### 2.3 Effectiveness of Financial Reporting and Listing Rule Compliance

With the support and input from the External Auditor, our Audit Committee carried out its review and assessment of the Group's financial reporting, covering key areas such as whether suitable accounting policies were adopted, whether management made appropriate estimates and judgments and whether disclosures in published financial statements were fair, balanced and understandable.

The Audit Committee carries out its compliance review to assess whether the Group has been complying with the relevant regulatory requirements on a quarterly basis. The compliance review summarized the compliance status, corrective actions and the enhancement recommendations.

In light of the above, the Audit Committee considered the Group's processes in financial reporting and Listing Rules' Compliance were effective.

### 2.4 Risk Mitigating Measures and Key Changes

The Group is exposed to various risks including but not limited to financial market risk, credit risk, compliance risk, business risk and ESG risk. Risk management and internal controls are the day-to-day responsibility of every employee. In order to cope with these risks, the Group monitors and implements mitigating measures both as part of our governance and in our day-to-day decision making process. In the sphere of aircraft leasing, these risks are coordinated and overseen by the Aviation Risk Management team.

In 2025, air travel continued its strong post-pandemic trajectory and continues to play a pivotal role in global connectivity. According to IATA, airlines served nearly 5 billion passengers in 2025, surpassing pre-pandemic levels with continued strong demand growth on thousands of unique city pairs – over 30% more than a decade earlier – while inflation-adjusted fares remained significantly lower than historical averages. Despite persistent fare pressures and supply chain challenges affecting aircraft manufacturing and delivery schedules, the industry achieved revenues approaching US\$1 trillion and a net profit margin of approximately 3.6% (2024: 3.4%).

Against this resilient backdrop, most airline customers leasing aircraft from the Group's fleet showed continued improvement in liquidity and profitability in 2025, though some remain weighed down by pandemic-era debt burdens. Only one debt deferral COVID mitigation agreement remains during the year, accounting for just 0.36% of cumulative invoicing since 1 January 2020. There were no uncured payment defaults in 2025. Although operating conditions remain largely benign overall – characterised by stable oil prices, continued strong demand and a constrained supply of high-performance aircraft (particularly widebodies)–2025 has also been marked by considerable uncertainty, with macro political factors and an overtly politicised environment simultaneously impacting both demand and supply chains. The Group continues to closely monitor high-risk lessees, a measure that demonstrated the importance of such vigilance following the unexpectedly sudden collapse and closure of PLAY Airlines in October 2025. Through advance preparation, two aircraft were repossessed swiftly and efficiently.

Demand for leased new and used aircraft remained strong throughout the period, benefiting from a shortage of new deliveries, although to a lesser extent than in 2024. The Group was generally able to either extend leases at favourable terms or improve the average credit profile of customers through aircraft asset portfolio sales. This trend is expected to continue at least through 2026. Nevertheless, as always, uncertainties do threaten this positive outlook – particularly geopolitical/trade barrier considerations and regional conflicts. The Group believes its diversified customer base and fleet of predominantly highly liquid and fuel-efficient narrowbody aircraft serve as an effective hedge against any uncertainty in demand.

## RISK MANAGEMENT REPORT

In respect of China market in 2025, the civil aviation industry delivered an impressive performance after fully recovering from the pandemic's impact, achieving a high-quality and profitable rebound. In the domestic market, passenger traffic reached 770 million for the year, marking a 5.5% year-on-year increase and setting a new historical record. The international route market also demonstrated robust recovery, with total international flights steadily returning to more than 90% of the level in 2019. In particular, flights to Belt and Road partner countries rebounded even faster, reaching 94.5% of pre-pandemic levels and driving international passenger traffic growth exceeding 20%. Notably, the competitiveness of Chinese airlines was significantly enhanced in the international market, with their passenger volumes not only recovering but surpassing pre-pandemic levels. Besides passenger services, civil aviation cargo performance was equally impressive, with annual freight and mail volume exceeding 10 million tons, a 13.3% year-on-year increase. Driven by recovering market demand and enhanced operational efficiency, the industry achieved a profit of RMB6.5 billion. This milestone not only signifies China's civil aviation sector entering a new phase of healthy and sustainable development but also lays a solid foundation for high-quality growth in 2026 and the 15th Five-Year Plan period. Benefiting from the further improvement in the domestic civil aviation market environment and the enhanced cash flow of airlines, the Group's overall overdue receivables decreased further in 2025. In the Chinese Mainland market, the Group maintained a stable overall credit risk structure, with higher-rated airlines lessees constituting the majority of its fleet leasing portfolio. To sustain the overall credit rating within a stable range, the Company moderately reduced the fleet leasing proportion of certain lower-rated airlines through portfolio trading and other measures.

The 'upward slope' of each airline industry cycle represents an opportunity to prepare for the next 'downward slope' by shaping the portfolio and improving the quality of our leases, particularly in respect of credit and security. The Aviation Risk Management team continues to advise on and improve the Group's risk oversight/mitigation capability through such measures as the introduction of Risk Adjusted Pricing, the development of a robust concentration model, modernization/improvement of our qualitative rating methodology, maintenance and review of the Group's 'Watch List' (together with recommendations for mitigating actions), monitoring of aircraft-on-ground situations and oversight of components installed on non-title aircraft or in maintenance. The Aviation Risk Management team also leads in receivables monitoring and credit/market analysis. Team members are focal to each 'Deal Team' in reviewing lease documentation, performing due diligence and proposing enhanced security measures. The team also acts as the primary contact for all outbound 'Know Your Customer' (KYC) requests.

Regarding daily operational risk management, this primarily involved continuous assessment of key operational indicators and cash reserves of the airlines. Airlines showing elevated default risks were placed on a watch list for close monitoring, with mitigation plans formulated to reduce impacts and prevent further risk deterioration. Primary measures included, but are not limited to, issuing payment demand letters to overdue airlines, conducting site visits, and initiating legal proceedings to safeguard the Group's interests. Concurrently, the Group proactively adopted measures such as aircraft repossession and litigation to minimize impacts from high-default-risk airlines.

## RISK MANAGEMENT REPORT

During the year, the Group undertook the following measures in order to further mitigate finance/ portfolio related risks:

- (i) Took new delivery of 26 aircraft and disposed of 36 aircraft to third party to reduce geographical and portfolio concentration risks.
- (ii) Successfully issued US\$160 million senior unsecured notes due in 2028, carrying a fixed coupon rate of 6%.
- (iii) Continues to maintain abundant liquidity from financial institutions through upsizing the warehouse facility to US\$700 millions from the world's leading banks.
- (iv) In order to mitigate exchange rate risks, the Group hedges currency exchange risks naturally through matching the currency from income and financial liability. The Company also financially hedges the exposure using currency forward contracts where necessary and appropriate.
- (v) With the interest rate swap arrangements, the Group's floating interest rate borrowings were hedged as per its prudent interest rate hedging policy. The interest rate risk would be monitored on an ongoing basis.

In addition to these operational and credit risk considerations, the Group also closely monitors external geopolitical developments that may impact its precious aircraft assets. Following the escalation of geopolitical tensions in the Middle East in early March 2026, the conditions have resulted in airspace disruptions and operational adjustments, it has also elevated the risk in the operational environment for civilian aircraft subject to accidental or intentional damage.

In this context, war risk insurance serves as a crucial safeguard for the Group's aircraft asset, in addition to the standard hull all risks insurance requirement from lessees. Given that standard risks policies exclude war and related perils, it is an additional requirement in our lease agreements for the lessee to maintain war risk and allied perils insurance as additional coverage alongside all risks insurance, ensuring protection against events including war during the whole lease period. This structure allows us to transfer the financial impact of war-related events to insurers, so that even if an aircraft is destroyed, damaged, or rendered unrecoverable, the insured value can be recovered. As geopolitical tensions intensify, this layered insurance approach provides essential financial protection and helps mitigate potential losses despite ongoing regional uncertainty.

Regarding environmental risk, the Group has identified pertinent climate change risks, with a particular focus on both the physical and transitional risks across various time horizons. To mitigate these climate-related risks, the Group has developed a climate change policy. This policy delineates detailed mechanisms for identifying and addressing each potential financial and operational impact stemming from climate change. The Group completed a double materiality assessment (DMA) in 2025 as part of its preparations for the implementation of Corporate Sustainability Reporting Directive (CSRD) regulations in Europe. Ultimately, the scope of these regulations were changed such that the Group was excluded from their applicability; nonetheless, the effort supports disclosure requirements in other jurisdictions.

In terms of governance risk, the Group recognizes its exposure to internal governance risks, including legal compliance and anti-bribery measures. These risks are overseen by the internal audit function. The internal audit function independently implements the Company's internal control system and conducts assessments of control effectiveness for each identifiable risk. Additionally, our internal audit function conducts annual assessments of the overall internal control system and performs operational audits to evaluate the effectiveness and adequacy of internal controls, providing recommendations for improvement.