

# ***CALC***

China Aircraft Leasing Group Holdings Limited

(Incorporated under the laws of the Cayman Islands with limited liability)  
Stock code : 01848

## *Risk Management Report 2019*



**ANNUAL REPORT | 2019**

# RISK MANAGEMENT REPORT

## 1 MAIN FEATURES OF RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibility for the Company's system of internal control, ongoing monitoring of risk management and internal control, and reviewing their effectiveness periodically. In this connection, the Board ensures there is adequacy of resources, staff qualifications and experience, training programs and budget for the accounting, internal audit and financial reporting functions.

The system of internal control is designed to achieve a high level and strong management of key types and overall risks in pursuit of the Company's business objectives.

The Board operates within 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. 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 process, particularly, standards of financial reporting, risk management and internal controls.

On the operational level, we have a Risk Management team overseeing the operational and business risks of the aircraft leasing business. On the Group level, we have an Internal Audit function, which is directly reporting to the Audit Committee for independent monitoring and reporting of risks and controls.

The Company has the objectives of risk management and internal control as follows:

- Continue to optimize its business model, integrating it with its enhanced corporate governance structure to reduce the inherent risks in its business activities, such as liquidity risk and credit risk;
- Continue to utilize 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
- Continue to cultivate a strong risk management corporate culture throughout the organization.

The Company has implemented its risk management system and policies from the business model and strategic dimension.

### **Business model dimension**

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

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### Strategic dimension

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

The Company's risk management and internal control framework is designed to minimize the risks in the delivery of the Company'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 Company is to protect its long-term and sustainable interests.

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

The Company 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, Compliance, Company Secretarial, Human Resources, Information Technology and Risk Management, which constitute the second line of defense. This line of defense monitors and facilitates implementation of effective risk management practices by risk owners and reports risk related information throughout the organization.

Risk Management team prepares the risk management reports on a quarterly basis and submits it to our Audit Committee for review. In addition, 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.

The third line of defense is carried out by our Internal Audit function. It provides independent review on the operation of controls.

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

The Risk Management team carried out the annual review of the effectiveness of the Group's risk management and internal control system and the results were reported to our 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.

### 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 Company through its regular meetings in order to ensure that business risks had been considered, assessed and managed as integral part of the business. There was an ongoing process for identifying, evaluating and managing the Company's significant risks. The Company's risk assessment process included the monitoring of key strategic and financial risk matrix. In addition, the Company reviewed the impact of any changes and developments on its risk profile, strategic risk and reputation.

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*

Our Audit Committee held regular meetings, at least quarterly for assessing control of the Company and the effectiveness of risk management.

The Risk Management team, being supported by other relevant departments, summarized the key risks and internal control matters, and identified changes in the risk and internal control profile of the Company.

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

The risk and internal control review report was updated quarterly to the Audit Committee members where they contributed their views and raised questions to ensure the risk management and internal controls were in place and effective.

### 2.2 Significant Control Failings or Weaknesses

The Company has underlying procedures to handle significant control failings or weaknesses, which include material adverse event assessment, mitigation plan and follow up action. Significant control failing is required to be reported by senior management to our Audit Committee and the Board. No significant control failings or weaknesses were identified during the year.

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

With the support and input from the External Auditors, our Audit Committee carried out its review and assessment of the Company's financial reporting, covering those key areas like 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.

Our Audit Committee carried out its compliance review to assess whether the Company 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 regard to the above, our Audit Committee considered the Company's processes for financial reporting and Listing Rules' Compliance were effective.

### 2.4 Risk Mitigating Measures and Key Changes

Risk management and internal controls are the day-to-day responsibility of every employee. The Company is exposed to various risks including but not limited to financial market risk, counterparty risk, compliance risk and business risk.

In order to cope with these risks, the Company monitors and implements mitigating measures.

During the year, the Company undertook the following to mitigate its risks:

- delivered 11 aircraft to airline customers in different geographic regions and continued to diversify its portfolio geographically in the long term
- diversified its financing channels through:
  - completing a USD840 million five-year unsecured syndicated pre-delivery payment loan facility, which is the first revolving syndicated loan to allow more aircraft that would have been financed and effectively support ongoing large order book delivery
  - issuing its first RMB1 billion senior unsecured bond in China
  - issuing a RMB800 million senior unsecured medium-term note in China
  - disposing an additional 7 aircraft to CAG, an aircraft investment vehicle which was established in 2018 and currently has a portfolio of 23 aircraft

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The diversity of funding channels helped the Company tapped into various banks, financial institutions and investors with multiple financing products. In addition, the asset-light strategy for disposal of aircraft (including further injection of aircraft into CAG) bolstered the Company's financing capacity and supported vast aircraft trading opportunities through efficient turnover on capital. The overall liquidity risk and financial leverage risk were maintained at an acceptable level during the year.

The Company continues monitoring the currency exchange risk from time to time through matching the currencies of lease receivables and borrowings to the greatest extent possible and taking into consideration of diversified funding channels and lower funding costs, and considers hedging significant currency exchange exposure where necessary and appropriate.

With the interest rate swap arrangement, the Company'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.

Apart from the above, no significant risk event occurred during the year in respect of other business, market, financial or operational risks of the Company and no significant change in the above-mentioned risks was noted during the year.

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