AVIANCA GROUP INTERNATIONAL LIMITED AND SUBSIDIARIES

(England, United Kingdom)

Unaudited Condensed Consolidated Interim Financial Statements
As of September 30, 2022, and December 31, 2021, and
for the nine-month period ended September 30, 2022

AVIANCA GROUP INTERNATIONAL LIMITED AND SUBSIDIARIES
(England, United Kingdom)

Index

Condensed Consolidated Interim Statements of Financial Position…………………………………	3
Condensed Consolidated Interim Statement of Comprehensive Income …………………………….	5
Condensed Consolidated Interim Statement of Changes in Equity…………………………………...	7
Condensed Consolidated Interim Statement of Cash Flows ………………………………………….	8
Notes to the Condensed Consolidated Interim Financial Statements………………………………….	9

AVIANCA GROUP INTERNATIONAL LIMITED AND SUBSIDIARIES
(England, United Kingdom)
Condensed Consolidated Interim Statements of Financial Position
(In USD thousands)

	Notes	September 30, 2022	December 31, 2021
Assets			
Current assets:			
Cash and cash equivalents	8	$ 744,030	$ 1,201,759
Restricted cash	8	36,935	76,572
Short term investments	11	44,793	42,260
Trade and other receivables net of expected credit losses	9	235,966	207,563
Current tax assets	20	198,240	168,945
Expendable spare parts and supplies		102,536	87,264
Prepayments		28,033	35,058
Deposits and other assets	11	22,050	17,919
		1,412,583	**1,837,340**
Assets held for sale	12	13,441	322,890
Total current assets		**1,426,024**	**2,160,230**
Non–current assets:			
Deposits and other assets	11	77,673	35,920
Accounts receivable from related parties	10	101,199	—
Intangible assets and goodwill, net	14	2,950,805	2,997,890
Net defined benefit asset		57,126	14,626
Deferred tax assets	20	39,370	42,502
Property and equipment, net	13	2,876,138	1,659,462
Total non–current assets		**6,102,311**	**4,750,400**
Total assets		**$ 7,528,335**	**$ 6,910,630**

AVIANCA GROUP INTERNATIONAL LIMITED AND SUBSIDIARIES
(England, United Kingdom)
Condensed Consolidated Interim Statements of Financial Position
(In USD thousands)

	Notes	September 30, 2022	December 31, 2021
Liabilities and equity			
Current liabilities:			
Short-term borrowings and current portion of long-term debt	15	$ 290,916	$ 196,761
Accounts payable		463,214	536,852
Accounts payable to related parties	10	91	—
Accrued expenses		38,775	22,978
Current tax liabilities	20	30,653	54,698
Provisions for legal claims	21	54,465	71,661
Employee benefits		70,673	89,952
Air traffic liability		630,783	522,872
Frequent flyer deferred revenue		138,079	146,694
Other liabilities		16	1,993
		1,717,665	**1,644,461**
Liabilities associated with the assets held for sale	12	6,250	317,667
Total current liabilities		**1,723,915**	**1,962,128**
Non–current liabilities:			
Long–term debt	15	3,623,676	2,862,430
Provisions for return conditions	16	746,875	272,817
Employee benefits		29,995	53,092
Deferred tax liabilities	20	324,530	331,729
Frequent flyer deferred revenue		238,551	262,118
Other liabilities		918	3,416
Total non–current liabilities		4,964,545	3,785,602
Total liabilities		$ **6,688,460**	**$ 5,747,730**
Equity			
Common shares		4	4
Share premium		1,145,962	1,145,962
Accumulated losses		(368,142)	(12,563)
Other comprehensive income	17	52,682	14,954
Equity attributable to owners of the Company		**830,506**	**1,148,357**
Non–controlling interest (NCI)		9,369	14,543
Total equity		**839,875**	**1,162,900**
Total liabilities and equity		**$ 7,528,335**	**$ 6,910,630**

See accompanying notes to condensed consolidated interim financial statements

AVIANCA GROUP INTERNATIONAL LIMITED AND SUBSIDIARIES
(England, United Kingdom)
Condensed Consolidated Interim Statement of Comprehensive Income (Loss)
(In USD thousands)

	Notes	For the nine months ended September 30, 2022	For the three months ended September 30 2022
Operating revenue:			
Passenger		$ 2,285,734	$ 908,862
Cargo and other		676,786	219,711
Total operating revenue	4, 25	**2,962,520**	**1,128,573**
Operating expenses:			
Flight operations		55,954	18,796
Aircraft fuel		1,100,570	393,296
Ground operations		298,375	100,677
Rentals	22	190,536	41,622
Passenger services		69,049	25,067
Maintenance and repairs		129,229	49,125
Air traffic		130,135	45,034
Selling expenses		236,263	84,719
Salaries, wages, and benefits		320,913	101,599
Fees and other expenses		189,601	69,273
Depreciation and amortization	13,14	286,194	109,377
Total operating expenses		**3,006,819**	**1,038,585**
Operating (Loss) profit		**(44,299)**	**89,988**
Interest expense		(298,072)	(106,012)
Interest income		8,808	3,595
Other financial income		(11)	(11)
Foreign exchange, net	6	(4,563)	(3,543)
Equity method profit		421	—
Loss before income tax		**(337,716)**	**(15,983)**
Income tax expense – current	20	(28,445)	978
Income tax benefit – deferred	20	6,053	2,720
Total tax expenses		**(22,392)**	**3,698**
Net loss for the period from continuing operations		**(360,108)**	**(12,285)**
Discontinuing operations			
Profit from discontinuing operations	12.1	3,257	1,979
Net loss for the period		**$ (356,851)**	**$ (10,306)**

AVIANCA GROUP INTERNATIONAL LIMITED AND SUBSIDIARIES
(England, United Kingdom)
Condensed Consolidated Interim Statement of Comprehensive Income (Loss)
(In USD thousands)

	Notes	For the nine months ended September 30, 2022	For the three months ended September 30, 2022
Net loss for the period		**$ (356,851)**	**$ (10,306)**
Other comprehensive income			
Items that will not be reclassified to profit or loss in future periods:	17		
Revaluation of administrative property		35	35
Remeasurements of defined benefit		43,932	9,489
Income tax		(1,545)	(149)
		42,422	**9,375**
Items that will be reclassified to profit or loss in future periods:	17		
Effective portion of changes in fair value of hedging instruments		(6,531)	(6,337)
Net change in fair value of financial assets with changes in OCI		(2,065)	(622)
Foreign operations – foreign currency translation differences		—	625
		(8,596)	**(6,334)**
Other comprehensive income, net of income tax		33,826	3,041
Total comprehensive loss, net of income tax		**(323,025)**	**(7,265)**
Loss attributable to:			
Equity holders of the parent		(355,579)	(11,221)
Non–controlling interest		(1,272)	915
Net loss		**(356,851)**	**(10,306)**
Total comprehensive income attributable to:			
Equity holders of the parent		(317,851)	(7,987)
Non–controlling interest		(5,174)	722
Total comprehensive loss		**$ (323,025)**	**$ (7,265)**

See accompanying notes to condensed consolidated interim financial statements

AVIANCA GROUP INTERNATIONAL LIMITED AND SUBSIDIARIES
(England, United Kingdom)
Condensed Consolidated Interim Statement of Changes in Equity
(In USD thousands)

	Notes	Common shares	Share premium	Other comprehensive income OCI Reserves	Retained deficit	Equity attributable to owners of the Company	Non-controlling interest	Total equity
		For the nine months ended September 30, 2022						
Balance at December 31, 2021		**$4**	**$1,145,962**	**$14,954**	**$(12,563)**	**$1,148,357**	**$14,543**	**$1,162,900**
Net loss		—	—	—	(355,579)	(355,579)	(1,272)	(356,851)
Other comprehensive income	17	—	—	37,728	—	37,728	(3,902)	33,826
Balance at September 30, 2022		**$4**	**$1,145,962**	**$ 52,682**	**$ (368,142)**	**$ 830,506**	**$ 9,369**	**$ 839,875**

See accompanying notes to condensed consolidated interim financial statements

AVIANCA GROUP INTERNATIONAL LIMITED AND SUBSIDIARIES
(England, United Kingdom)
Condensed Consolidated Interim Statement of Cash Flows
(In USD thousands)

	Notes	For the nine months ended September 30, 2022
Cash flows from operating activities:		
Net loss for the period		**$ (356,851)**
Adjustments for:		
Provision for expected credit losses	9	1,193
Provisions for legal claims		(1,430)
Depreciation and amortization	13,14	286,194
Disposal Assets		1,033
Interest Income		(8,808)
Interest expense		298,072
Deferred tax	20	(6,053)
Valuation of financial instruments		1,814
Current tax expense	20	28,445
Unrealized foreign currency gain		(3,559)
Changes in:		
Trade and other receivables		(29,864)
Expendable spare parts and supplies		(16,403)
Prepayments		7,092
Net current tax		(37,319)
Deposits and other assets		(52,163)
Accounts payable and accrued expenses		2,152
Air traffic liability		107,911
Frequent flyer deferred revenue		(32,182)
Provisions for legal claims		4,615
Employee benefits		(44,398)
Income tax paid		(63,365)
Net cash provided by operating activities		**86,126**
Cash flows from investing activities:		
Acquisition of property and equipment		(194,618)
Reimbursement of equipment acquisition	13	55,070
Acquisition of other investments		(5,081)
Loan granted related parties	10	(97,800)
Loan granted to third parties	11	(2,500)
Acquisition of intangible assets	14	(11,730)
Proceeds from sale of property and equipment		348,611
Options contracts		(9,999)
Net cash provided by investing activities		**81,953**
Cash flows from financing activities:		
Payments of liabilities associated with assets held for sale		(317,667)
Repayment of loans and borrowings	15	(133,016)
Interest paid	15	(165,475)
Net cash used in financing activities		**(616,158)**
Net decrease in cash and cash equivalents		(448,079)
Restricted cash		(4,044)
Exchange rate effect on cash		746
Cash of discontinued operation	12.1	(6,352)
Cash and cash equivalents at the beginning of the period		1,201,759
Cash and cash equivalents at the end of the period		**$ 744,030**

See accompanying notes to condensed consolidated interim financial statements

(1) Reporting entity

Avianca Group International Limited ("AGIL" or the "Company") is incorporated and existing under the laws of England and Wales as of September 27, 2021, with its registered office at Avianca Savinvest Arquen House, 4-6 Spicer Street St. Albans, Greater London, AL3 4PQ. United Kingdom. AGIL, together with its subsidiaries, will be referred to as the "Group" for the purposes of this document.

AGIL was incorporated for the purpose of acquiring the business of Avianca Holdings S.A. The acquisition was completed on December 1, 2021, pursuant to the Equity Contribution and Conversion Agreement (the "ECCA") among Avianca Holdings S.A and certain of its subsidiaries as well as a majority of Tranche B lenders of Avianca Holdings S.A. that were party to the Debtor in Possession ("DIP") agreement.

(a) Background of entities acquired

Certain subsidiaries of AVN Flight Cayman Limited (acquired entity) were part of the Avianca Holdings S.A. Chapter 11 process. These subsidiaries emerged successfully from Chapter 11 on December 1, 2021 ("Exit date of Chapter 11 - Emergence Date" of Avianca Holdings S.A. and its Affiliated Debtors). The background is as follows.

On May 10, 2020 (and, with respect to certain entities, September 21, 2020), Avianca Holdings S.A. ("AVH") and certain subsidiaries (AVH and said subsidiaries, each, a "Debtor" and, collectively, the "Debtors") commenced cases for voluntary relief under the Bankruptcy Code in the U.S. Bankruptcy Court administered under Case No. 20-11133 (MG). LifeMiles, Avianca's frequent flyer program, was not part of the Chapter 11 filing.

The Debtors filed a plan of reorganization (or the "Plan of Reorganization" as amended and/or supplemented periodically) on August 10, 2021 which provides for, among others:

(a) the conversion of the aggregate Tranche B DIP Obligations amount into equity interests of a new holding company of the reorganized Debtors ("Avianca Group International Limited") in exchange for the forgiveness, extinguishment, termination, cancellation, and repayment in full of the aggregate Tranche B DIP Obligations amount and the termination and release of the guarantees and security interests related thereto (including, under the DIP Credit Agreement, among other documents and agreements),
(b) an equity raise by reorganized AVH in an aggregate amount equal to $200,000 to be funded through cash payments by certain of the Supporting Tranche B Lenders, and
(c) the issuance of certain "exit" notes in full and final settlement of Tranche A-1 DIP Facility Claims and Tranche A-2 DIP Facility Claims (in each case, as defined in the Plan of Reorganization), the transactions (the "Transactions") of which are defined within the Plan of Reorganization.

On November 2, 2021, the Plan of Reorganization (the "Plan") was approved by the Company's creditors and confirmed by the Court, allowing the Company to successfully emerge from Chapter 11.

(In USD thousands)

On December 1, 2021, Avianca Holdings S.A. and its subsidiaries announced that it had successfully completed its financial restructuring process and had emerged from Chapter 11 having completed the precedent conditions including: (i) the Equity Contribution and Conversion Agreement (the “ECCA”) entered into by and between AVH, certain of its subsidiaries and the Tranche B financiers, the agreement which was approved by the Court for the Southern District of New York on September 14, 2021, and (ii) the Plan approved by Avianca Holdings S.A. and its subsidiaries' creditors and confirmed by the Court on November 2, 2021.

(b) Significant subsidiaries

The following are the Group’s significant subsidiaries included within these condensed consolidated interim financial statements:

Subsidiary Name	Country of incorporation	Ownership Interest% 2022	Ownership Interest% 2021
Avianca Ecuador S.A.	Ecuador	99.62%	99.62%
Aerovías del Continente Americano S.A. (Avianca)	Colombia	99.98%	99.98%
Avianca Leasing, LLC	EE. UU	100.00%	100.00%
Grupo Taca Holdings Limited.	Bahamas	100.00%	100.00%
LifeMiles Ltd.	Bermuda	100.00%	100.00%
Avianca Costa Rica S.A.	Costa Rica	92.42%	92.42%
Taca International Airlines, S.A.	El Salvador	96.83%	96.83%
Tampa Cargo S.A.S.	Colombia	100.00%	100.00%
Regional Express Américas S.A.S.	Colombia	100.00%	100.00%
Aero Transporte de Carga Unión, S.A. de C.V.	Mexico	92.70%	92.70%

The Group, through its subsidiaries, is a provider of domestic and international passenger and cargo air transportation, within the domestic markets of Colombia, Ecuador as well as international routes serving North, Central and South America, Europe, and the Caribbean.

The Group has entered into several bilateral code share alliances with other airlines whereby selected seats on one carrier’s flights can be marketed under the brand name and commercial code of the other, thereby expanding travel options for customers globally. Most codeshare alliances typically include joint frequent flyer program participation; reservation coordination, ticketing, passenger check in and baggage handling; passenger and baggage transfer, among others. To date, AGIL airlines have codeshare agreements with the following airlines: Air Canada, Aeromexico, United Airlines, Copa Airlines, Silver Airways, Iberia, Lufthansa, All Nippon Airways, Singapore Airlines, Eva Airways, Air China, Etihad Airways, Turkish Airlines, Air India, Azul Linhas Aéreas Brasileiras, GOL Linhas Aéreas Inteligentes, TAP, EasyFly. In addition, Avianca, Taca International, Avianca Ecuador and Avianca Costa Rica (the latter as “Connected Entities” of Avianca and Taca International) have been Star Alliance members since June 2012, providing customers access to those destinations and services offered by the 26 airline members comprising the Star Alliance network, including several of the world's most recognized airlines such as Lufthansa, United Airlines, Thai Airways, Air Canada, TAP, Singapore Airlines, among others. Star Alliance members are committed to meeting the highest standards of security and customer service.

(In USD thousands)

The Group's Cargo operations are primarily carried out by Tampa Cargo S.A.S. and Aero Transporte de Carga Unión S.A. de C.V. as well as through available space on passenger flights.

The Group also owns and operates LifeMiles (the "Program"), which is also the loyalty program for its subsidiary airlines. The Program operates through LifeMiles Ltd., one of the Group's subsidiaries incorporated in and operating under the laws of Bermuda. The Program's primary purpose is to sell loyalty miles ("miles") to Avianca, its commercial partners, Star Alliance network partner airlines and to other airline partners and individuals who are program members, which collect fees from program members for certain transactions. Program partners use miles to reward their customers, thereby increasing loyalty to their brands. Airline partners reward passengers with miles for flights taken, financial partners reward their credit or debit card holders with miles when products and/or services are purchased, and commercial partners reward customers with miles for products or other goods and services purchased at commercial locations. Miles can be redeemed for flights on the Group's airlines, Star Alliance member airlines and with other airline partners, as well as commercial partners' products and services, such as hotel nights, car rentals and retail goods among others.

As of September 30, 2022 and December 31, 2021, Avianca Group International Limited's total fleet is comprised of:

	September 30, 2022			**December 31, 2021**		
Aircraft	**Owned / Financial Lease**	**Operating Lease**	**Total**	**Owned / Financial Lease**	**Operating Lease**	**Total**
Airbus A-319	6	17	**23**	16	7	**23**
Airbus A-320	4	70	**74**	18	49	**67**
Airbus A-320 NEO	—	17	**17**	3	11	**14**
Airbus A-321	—	—	—	5	—	**5**
Airbus A-330	1	3	**4**	1	5	**6**
Airbus A-330F	—	6	**6**	5	1	**6**
Airbus A-300F	3	—	**3**	3	—	**3**
Boeing 787-8	3	10	**13**	8	5	**13**
Boeing 787-9	—	—	—	—	1	**1**
ATR-72	—	—	—	10	—	**10**
Boeing 767F	2	—	**2**	2	—	**2**
	19	**123**	**142**	**71**	**79**	**150**

During the first nine months of 2022, the Group finalized financial lease agreements of ten (10) ATR and five (5) A321, the operating lease agreements of one (1) A320, two (2) A330 and one (1) 787-9. The Group also incorporated eight (8) A320 and three (3) A320 NEO under operating lease.

During the first nine months of 2022, six (6) A319, two (2) A320 and five (5) A330F transitioned to operating leases from finance through sale and lease back transactions. An additional four (4) A319, twelve (12) A320, three (3) A320 NEO and five (5) 787-8 previously under finance leases changed to operating and financial leases while one (1) A330 completed its transition to full ownership.

(2) Basis of presentation of the Condensed Consolidated Interim Financial Statements

Professional Accounting Standards Applied

a) Statement of compliance

The Condensed Consolidated Interim Financial Statements for the nine-month period ended September 30, 2022 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as established by the International Accounting Standards Board ("IASB").

The Condensed Consolidated Interim Financial Statements do not include all information and disclosures required in the annual financial statements as of and for the nine-month period ended September 30, 2022. However, selected explanatory notes have been included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the Consolidated Financial Statements for the period ended December 31, 2021.

b) Going Concern

These Condensed Consolidated Interim Financial Statements have been prepared on a going concern basis.

Avianca Group International Limited's financial results for the third quarter of 2022 includes more than $744 million in unrestricted cash and $3.9 billion in aggregate debt and IFRS-16 lease obligations as compared to more than $5.0 billion of net debt at the May 2020 Initial Petition Date. This therefore underscores AGIL's financial strength and flexibility as required to execute its long-term business plan.

While oil prices declined during the third quarter 2022, geopolitical and macro headwinds continued to pressure international prices. This was further exacerbated by increased jet fuel pricing resulting from a significant decrease in global refinery capacity since 2020 and a very slow recovery which continued to adversely impact the Group's third quarter 2022 financial performance. However, strong demand was supported by third quarter seasonality, enabling a significant fare increases with healthy passthrough.

The Company has implemented several measures to preserve its strong liquidity position and to mitigate the adverse impact of jet fuel price increases. These include demand-supported fare increases since January 2022 in those regions with conducive market demand dynamics, as well as capacity adjustments and right-sizing in certain markets as aligned with AGIL's business plan, temporary deferral of non-essential expenses, and fuel consumption optimization initiatives and opportunistic fuel hedging through Asian call options for its September to December 2022 fuel consumption.

Management is confident in the Group's ability to navigate the current volatility and in the successful execution of its business plan in conjunction with the measures to mitigate fuel impact. The Group therefore has and will have adequate resources to continue in operational existence for the foreseeable future.

(In USD thousands)

c) Fuel price Risk

The Group´s operations require a significant volume of jet fuel purchases. Despite a 15.24% sequential decrease in jet fuel prices primarily due to more stable supply during the third quarter of 2022, AGIL has implemented several strategies to address potential unexpected price increases which could potentially result from future macroeconomic headwinds and unexpected catastrophic events.

This has primarily been achieved through fare increases in those markets with supportive demand dynamics, thereby offsetting the impact of jet fuel price increases to the fullest possible extent, resulting in improved yields with a preserved cash position. Further, capacity has been reduced and/or optimized to improve operational performance in those markets where the passthrough via fare increases has been more difficult to achieve, enabling an increased focus on more profitable markets.

In addition, in July 2022 Avianca purchased opportunistic call options with West Texas Intermediate (WTI) as an underlying asset to cover the total fuel consumption for the September to December 2022 period, enabling the Company to protect against fuel price increases and volatility. AGIL spent USD$ 9,999.40 in premiums related to said fuel call options during the third quarter ended September 30, 2022.

Sensitivity analysis

Fuel price fluctuation impacts on profit and/or loss are illustrated below. These calculations are based on a 5%, 10% and 15% per barrel increase in the underlying reference price curve at the end of September 2022. The projection period was defined until the end of 2022. This analysis assumes that all other variables remain constant and considers the effect of changes in jet fuel price.

	Effect in profit or loss
5% movement	(21,490)
10% movement	(42,980)
15% movement	(64,470)

d) *Basis of measurement*

The Condensed Consolidated Interim Financial Statements have been prepared on a historical cost basis, excluding land and buildings (which are classified as administrative property), defined benefit plan assets, fuel call options and short-term investments that have been calculated at fair value.

e) *Functional and presentation currency*

The Condensed Consolidated Interim Financial Statements are presented in US Dollars, the functional currency for each legal entity within the Group. Items included within the financial statements of each entity are measured using said functional currency.

f) *Use of judgments and estimates*

The preparation of IFRS compliant Condensed Consolidated Interim Financial Statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results therefore may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized accordingly.

- The Group recognizes revenue from tickets that are expected to expire unused based on historical data, experience, and the impacts of COVID-19 on the future trend of use of tickets by passenger. In order to define the expected expiration date, also with benefit of an independent third-party specialist, the administration must make estimates based on historical experience as an indication of the future customer behavior, analyzed by rate type. The Company's management team evaluates historical data annually or more frequently and based on said accumulated data makes adjustments as appropriate, if necessary.

- Deferred taxes are recognized on unused tax losses and on deductible temporary differences to the extent that it is probable that in the future there will be taxable income that can be offset against deferred tax. Management must use significant judgment to determine the amount of deferred tax asset to recognize and the tax rates to use, based on the possible term and amounts of future taxable income together with future tax strategies and tax rates enacted in the jurisdictions where Group entities operate.

- The Group evaluates the carrying value of long-lived assets subject to amortization or depreciation whenever events or changes in circumstances indicate that an impairment may exist. For purposes of evaluating impairment losses, assets are grouped at the lowest level for which there are largely independent cash flows inflows by transportation and loyalty cash generating units. An impairment loss is recognized for the excess of the carrying amount of the asset over its recoverable amount. The recoverable amount is the fair value of an asset less the costs for sale or the value in use, whichever is greater.

  Goodwill and indefinite-lived intangible assets are not amortized but are reviewed for impairment annually or more frequently if events or circumstances indicate that the asset may be impaired.

- Aircraft lease contracts may establish certain conditions requiring aircraft to be returned to the lessor at the contracts' end. To comply with return conditions, the Group incurs costs such as the payment to the lessor of a rate in accordance with the use of components through the term of the lease contract, payment of maintenance deposits to the lessor, or overhaul costs of components. In certain contracts, if the asset is returned in a better maintenance condition than the condition at which the asset was originally delivered, the Group is entitled to receive compensation from the lessor. For the application of this policy at the beginning of the contract the projected amount of the obligation for return conditions discounted at present value is recognized as a part of the right-of-use and amortized during the term of the contract. The recognition of return conditions require management to make estimates of the costs with third parties of return conditions and use inputs such as hours or cycles flown of major components, estimated hours, or cycles at redelivery of major components, projected overhaul costs and overhaul dates of major components.

(g) Basis of Consolidation

Business combinations

The Group accounts for business combinations using the acquisition method in accordance with IFRS 3 "Business Combinations", when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group. The consideration transferred in the acquisition is generally measured at acquisition date fair value including the amount of any non–controlling interests in the acquiree, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a discounted purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred and included within administrative expenses except if related to the issue of debt or equity securities.

When the Group acquires a business, it measures at fair value the assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances, and pertinent conditions as at the acquisition date.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured, and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred to the seller, including the amount recognized for non–controlling interest over the fair value of identifiable assets acquired and liabilities assumed. If this consideration is less than the fair value of the net assets acquired, the difference is recognized as profit at the date of acquisition.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purposes of impairment testing, goodwill acquired is, from the acquisition date, allocated to each of the Group's cash–generating units that are expected to benefit from the acquisition, irrespective of whether other assets or liabilities of the acquire are assigned to those units.

When a business combination is achieved in stages, the Entity's prior shareholding in the acquired company is remeasured at fair value at the acquisition date and the resulting gain or loss, if any, is recognized in the income statement. The amounts arising from interests in the company acquired before the acquisition date that have been previously recognized in other comprehensive income are reclassified to the income statement when this treatment is appropriate if said interest is eliminated.

If the initial accounting treatment of a business combination is incomplete at the end of the reporting period during which the combination occurs, the Entity reports provisional amounts for the items whose accounting is incomplete. Such provisional amounts are adjusted during the measurement period or additional assets, or liabilities are recognized to reflect new information obtained about the facts and circumstances that existed at the acquisition date and that, if known, would have affected the amounts recognized as of that date.

Subsidiaries

Subsidiaries are entities controlled by AGIL. The financial statements of subsidiaries are included within the condensed consolidated interim financial statements from the date that control commences until the date that control ceases, in accordance with IFRS 10. Control is established after assessing the Group's ability to direct the relevant activities of the investee, its exposure and rights to variable returns, and its ability to use its power to affect the amount of the investee's returns. The accounting policies of subsidiaries have been aligned, when necessary, with the policies adopted by the Group.

Non-controlling interest - NCI

NCI is measured initially at its proportionate share of the acquirer's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Loss of control

When the Group loses control over a subsidiary, it derecognizes the assets and liability of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Interests in equity-accounted investee

The Group's interest in equity accounted investees comprise interests in associates and a joint venture.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interest in associates and the joint venture are accounted for using the equity method. They are initially recognized at cost, which includes transaction costs subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity- accounted investees, until the date on which significant influence or joint control ceases.

Transactions eliminated on Consolidation

Intercompany balances and transactions, and any unrealized income and expenses (except for foreign currency transaction gain or losses) arising from intercompany transactions, are eliminated. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(h) Foreign currency

Foreign currency transactions

The Condensed Consolidated Interim Financial Statements are presented in US dollars. Transactions in foreign currencies are initially recorded in the functional currency at the respective spot rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated to the spot rate of exchange ruling at the reporting date. All differences are recognized currently as an element of profit or loss. Non–monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction. Non–monetary items measured at a revalued amount in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(i) Revenue recognition

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognizes income when transferring control over the good or service to the customer. Below is information on the nature and timing of the satisfaction of performance obligations in contracts with customers.

(i) Passenger and cargo transportation

The Group recognizes revenues from passenger, cargo, and other operating income (frequent flyer program, ground operations, maintenance, and others) in the condensed consolidated interim financial statements of comprehensive income. Revenues from passenger, which includes transportation, baggage fees, fares, and other associated ancillary income, are recognized when transportation is provided. Cargo revenues are recognized when the shipments are delivered. Other operating income is recognized as the related performance obligations are met.

The tickets and other revenues related to transportation that have not yet been provided are initially deferred and recorded as "Air traffic liability" in the consolidated statement of financial position, deferring the revenue recognition until the trip occurs. For trips that have more than one flight segment, the Group considers each segment as a separate performance obligation and recognizes the revenues of each segment as the trip takes place. Tickets sold by other airlines where the Group provides transportation are recognized as passenger revenue at the estimated value that will be billed to the other airline when the trip is provided.

Reimbursable tickets usually expire after one year from the date of issuance. Non-refundable tickets generally expire on the date of the intended trip unless the date is extended by customer notification on or before the scheduled travel date. Rates for unused tickets that are expected to expire are recognized as revenue, based on historical data and experience, supported by a third-party valuation specialist to assist management in this process.

The Group periodically evaluates this liability, and any significant adjustment is recorded in the consolidated statements of comprehensive income. These adjustments are mainly due to differences between actual events and circumstances such as historical sales rates and customer travel patterns that may result in refunds, changes or expiration of tickets that differ from the estimates.

The Group evaluates its estimates and adjusts deferred revenue for unearned transportation and revenue for passenger transport when necessary.

The various taxes and fees calculated on the sale of tickets to customers are collected as an agent and sent to the tax authorities. The Group records a liability when taxes are collected and derecognize it when the government entity is paid.

(ii) Loyalty program

The Group has a frequent flyer program, “LifeMiles”, that is managed by LifeMiles Ltd., a subsidiary of the Group. The purpose of the program is to retain and increase travelers’ loyalty by offering incentives for their continued patronage.

Under the LifeMiles program, miles are earned by flying on the Group’s airlines or its alliance partners and by using the services of program partners for credit card use, hotel stays, car rentals, and other activities. Miles are also directly sold through various distribution channels. Miles earned can be exchanged for flights or other products or services from alliance partners.

The liabilities for the accumulated miles are recognized under "Frequent Flyer Deferred Revenue" until the miles are redeemed.

The Group recognizes the revenue for the redemption of miles at the time of the exchange of miles. These are calculated based on the number of miles redeemed within each period multiplied by the cumulative weighted average yield (CWAY), resulting in the decrease of "Frequent Flyer Deferred Revenue."

Breakage estimates are reviewed every semester. If a change in the estimate is presented, the adjustments will be accounted for prospectively through the income, with an adjustment of "update" to the corresponding deferred income balances.

(j) Income tax

Income tax expense is comprised of current and deferred taxes and is accounted for in accordance with IAS 12 “Income Taxes”. Current and deferred tax is recognized within profit or loss except to the extent that it relates to transactions recognized in the same or different period outside of profit or loss, either in other comprehensive income or directly in equity or a business combination.

(i) Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to calculate the amount are those that are enacted, or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Current and deferred taxes are recognized in income, except when they refer to items that are recognized outside of income, either in other comprehensive income or directly within stockholders’ equity, respectively. When the initial recognition of a business combination arises, the tax effect is included within the recognition of the business combination.

Current income tax relating to items recognized outside of income is recognized directly within equity or within other comprehensive income recognized in the consolidated statement of changes in equity or consolidated statement of comprehensive income, respectively. Management periodically evaluates positions taken within the tax returns with respect to situations for which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(ii) Deferred income tax

Deferred tax is recognized for temporary variations between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognized to the extent that is probable that the temporary differences, the carry forward of unused tax credits and any unused tax losses can be utilized except to the extent that it arises on the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re–assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax liabilities are recognized, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

- With respect to taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax laws enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but the Group intends to settle current tax liabilities and assets on a net basis, or their tax assets and liabilities will be realized simultaneously.

(k) Property and equipment

(i) Recognition and measurement

Flight equipment, property and other equipment are measured at cost less accumulated depreciation and accumulated impairment losses in accordance with IAS 16 “Property, Plant and Equipment”.

Property, operating equipment, and improvements that are being built or developed for future use by the Group are recorded at cost as under–construction assets. When under–construction assets are ready for use, the accumulated cost is reclassified to the respective property and equipment category.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Gain and losses on disposal of an item of flight equipment, property and equipment are determined by comparing the proceeds from disposal with the carrying amount.

(ii) Subsequent costs

The costs related to the maintenance of the fuselage and the engines of an aircraft are capitalized and depreciated for the shorter period between the next scheduled maintenance or the return of the asset. The depreciation rate depends on the estimated useful life of the asset, which is based on projected cycles and flight hours. Expenses incurred for routine maintenance of aircraft and engines are recorded as expenses as incurred.

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognized in the consolidated statement of comprehensive income on a straight–line basis over the estimated useful lives of flight equipment, property and other equipment, since this method most closely reflects the expected pattern of consumption of the future economic benefits associated to the asset.

Rotable spare parts for flight equipment are depreciated on the straight–line method, using rates that allocate the cost of these assets over the estimated useful life of the related aircraft. Land is not depreciated. Estimated useful lives are as follows:

	Estimated useful life (years)
Flight equipment:	
Aircraft	10 – 30
Aircraft components and engines	Useful life of fleet associated with component or engines
Aircraft major overhaul repairs	4 – 12
Rotable parts	Useful life of fleet associated
Leasehold improvements	Lesser of remaining lease term and estimated useful life of the leasehold improvement
Administrative Property	20 – 50
Vehicles	2 – 10
Machinery and equipment	2 – 15

Residual values, amortization methods and useful lives of the assets are reviewed and adjusted, if appropriate, at each reporting date.

The carrying value of flight equipment, property and other equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable and the carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(iv) Revaluation and other reserves

Administrative properties in Bogota, Medellín, El Salvador, and San Jose are recorded at revaluation cost less accumulated depreciation on buildings and impairment losses recognized at the date of revaluation. Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from it carrying amount. A revaluation reserve is recorded in other comprehensive income and credited to the asset revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognized in profit or loss, the increase is recognized in profit and loss. A revaluation deficit is recognized in the other comprehensive income, except to the extent that it offsets an existing surplus on the same asset recognized in the asset revaluation reserve. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

(l) Assets held for sale

Non-current assets and groups of assets for disposal that are classified as held for sale are measured at the lower of their carrying amount or fair value less costs to sell. Non-current assets and groups of assets for disposal are classified as held for sale if their carrying amount will be recovered mainly through a sale transaction, rather than through continued use. This condition is considered fulfilled only when the sale is highly probable and the asset or group of assets for disposal are available, in their current conditions, for immediate sale. The administration must be committed to the sale, and it must be expected that the sale complies with the necessary requirements for its recognition as such, within the year following the date of classification.

Property and equipment and intangible assets, once classified as held for sale, are not subject to depreciation or amortization and both the assets and any liabilities directly associated with the assets held for sale is reclassified to current and disclosed in a separate line of the consolidated financial statement, when the criteria for having an asset as held for sale are no longer met, the Group reclassifies property and equipment for the lower value between:

1) The carrying amount before the asset was classified as held for sale, adjusted for the depreciation that would have been recognized if it had not been classified as held for sale.
2) The recoverable amount on the date of the subsequent decision not to sell it.

(m) Leased assets

(i) Leases

At inception date of the contract, the Group assesses whether a contract is or contains a lease. A contract is, or contains, a lease if the contract transfers the right to control the use of an asset for a period in exchange for compensation. To assess whether a contract transfers the right to control the use of an identified asset, the Group uses the definition of lease in IFRS 16, or short-term leases, recognizing it as an expense on a straight-line basis over the term of the lease.

(ii) Assets by right of use

The Group recognizes the assets for right of use on the commencement date of the lease, i.e., the date on which the underlying asset is available for use. Right-of-use assets are measured at cost less any accumulated depreciation and impairment losses and are adjusted for any new measurement of lease liabilities. The cost of the assets with the right to use includes the amount of the recognized lease liabilities, the initial direct costs incurred, and the lease payments made on or before the start date, less the lease incentives received. The assets recognized by right of use are depreciated in a straight line during the shortest period of their estimated useful life and the term of the lease. The assets by right of use are subject to impairment.

(iii) Lease liabilities

At the commencement date of the lease, the Group recognizes the lease liabilities measured at the present value of the lease payments that will be made during the term of the lease. Lease payments include fixed payments and variable lease payments that depend on an index or a rate.

Lease payments also include the price of a purchase option that the Group can reasonably exercise and penalty payments for terminating a lease.

Variable lease payments that do not depend on an index or a rate, including Power by the Hour (“PBH”) payments, are recognized as an expense during the period in which the event or condition that triggers the payment occurs.

At the commencement or amendment of a contract that contains a lease component, the Group assigns the consideration in the contract to each lease component based on their relative independent prices. However, the Group has chosen not to separate the non-lease components of property leases, and to account for the lease and non-lease components as a single lease component.

Generally, the Group uses its incremental borrowing rate as the discount rate. The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

(iv) Short Term Leases

The Group has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including variable payment. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(n) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period to get ready for its intended use or sale are capitalized as part of the cost of the respective assets in accordance with IAS 23 “Borrowing Costs”. Borrowing costs are comprised of interest and other costs that an entity incurs in connection with the borrowing of funds.

(o) Intangible assets

Intangible assets acquired separately are initially measured at cost in accordance with IAS 38 “Intangible Assets”. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in the consolidated statement of comprehensive income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

	Estimated useful life (years)
Trademarks and Trade Names	Indefinite
Slots	Indefinite
Customer Relationships	15 – 20
Agreements	10

Intangible assets with finite lives are amortized over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or in the expected consumption pattern of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of comprehensive income within depreciation and amortization.

Intangible assets with indefinite useful lives are not amortized but they are tested for impairment annually, either individually or at the cash–generating unit level, without exceeding a business segment. Impairment measurement is currently carried out at the level of the air transport segment. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains and losses arising from the de–recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of comprehensive income when the asset is derecognized.

Goodwill is measured initially at cost, represented by the excess of the sum of the consideration transferred and the amount recognized for the non-controlling interest, with respect to the net of the identifiable assets acquired and the liabilities assumed. If this consideration is less than the fair value of the net assets acquired, the difference is recognized as a gain at the date of acquisition.

After initial recognition, Goodwill is measured at cost less any accumulated impairment loss. For the purpose of impairment tests, Goodwill acquired in a business combination is assigned to each company acquired and from the date of acquisition and an impairment measurement is carried out at the air segment level.

Based on the application of IFRS3 of the business combination, the Group recognized acquired identifiable intangible as assets such as trademarks, customer relationships, agreements, slots, routes, and developed technology.

The Group’s intangible assets include the following:

(i) Software and webpages

Acquired computer software licenses are capitalized based on cost incurred to acquire, implement, and bring the software into use. Costs associated with maintaining computer software programs are expensed as incurred. In case of development or improvement to systems that will generate probable future economic benefits, the Group capitalizes software development costs, including directly attributable expenditures on materials, labor, and other direct costs.

Acquired software cost is amortized on a straight-line basis over its useful life.

Licenses and software rights acquired by the Group have finite useful lives and are amortized on a straight–line basis over the term of the contract. Amortization expense is recognized in the consolidated statement of comprehensive income.

Cloud computing agreements correspond to a fee paid to a provider in exchange for access to the software through the Internet. The software is hosted by the supplier in its IT infrastructure. Directly attributable costs of preparing the software for its intended use are capitalized only when an intangible software asset is acquired. Therefore, directly attributable costs incurred to prepare the software for its intended use (for example, testing, data migration and conversion, training, software configuration, software customization, etc.) are not capitalized. These costs are only capitalized and recognized over a longer period when the implementation service differs from the service of receiving access to the software; or the cost gives rise to an independent intangible asset controlled by the Company who acquires it.

(ii) Routes, customer relationships, agreements, slots, and trademarks

Routes, customer relationships, agreements, slots, and trademarks are carried at cost, less any accumulated amortization and impairment. The useful life of intangible assets associated with routes and trademark rights are based on management's assumptions of estimated future economic benefits. The useful life of intangible assets associated with agreements rights and obligations is based on the term of the contract. The intangible assets are amortized over their useful lives of between two and twenty years. Certain trademarks have indefinite useful lives and therefore are not amortized but are tested for impairment at least at the end of each reporting period. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

(iii) Other intangible rights

Contains projects related to technological developments to generate efficiencies in the operation. Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability and intention to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete, and the asset is available for use. It is amortized over the period of expected future benefit. Amortization is recorded within cost of sales. During the period of development, the asset is tested for impairment annually.

(p) Financial instruments – initial recognition, classification, and subsequent measurement

(i) Financial assets

Financial assets are classified in the initial recognition as follows:

- Measured at amortized cost,
- At fair value through changes in other comprehensive income (OCI) and
- At fair value through profit or loss.

The classification of financial assets in the initial recognition depends on the characteristics of the contractual cash flow of the financial asset and the Group's business model for its administration. A financial asset (unless it is a trade receivable without a significant financial component) or financial liability is initially measured at fair value plus or minus for an item not at FVTPL, transaction costs that are directly attributable so its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

For a financial asset to be classified and measured at amortized cost or at fair value through OCI, it must give rise to cash flows that are "only capital and interest payments" over the outstanding principal amount. This evaluation is known as the SPPI test and is performed at the instrument level.

The Group's business model for the management of financial assets refers to how it manages its financial assets to generate cash flows. The business model determines whether cash flows will result from the collection of contractual cash flows, the sale of financial assets or both. Purchases or sales of financial assets that require the delivery of assets within a time frame established by regulation or convention in the market (regular operations), are recognized on the trading date, i.e., the date on which the Group commits to buy or sell the asset.

Subsequent measurement

For subsequent measurement purposes, financial assets are classified within three categories:

- at amortized cost;
- at fair value through other comprehensive income; or
- at fair value through profit or loss

Financial assets at amortized cost

The Group measures financial assets at amortized cost if the following conditions have been met:

- The financial asset is held within a business model for which the objective is 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 the principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest method (EIM) and are subject to impairment. Profits and losses are recognized in results when the asset is written off, modified or impaired.

The Group's financial assets at amortized cost include trade accounts receivable, accounts receivable with related parties, accounts receivable from employees and other non-current financial assets.

Financial assets at fair value through other comprehensive income

The Group measures debt instruments at fair value through OCI if the following conditions are met:

- The financial asset is held within a business model for which the objective is to achieve by both collecting contractual cash flows and selling financial assets.
- The contractual terms of the financial asset give rise on specified dates to the 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, exchange revaluation and impairment losses or reversals are recognized within Other Comprehensive Income and are calculated in the same manner as for financial assets measured at amortized cost. The remaining changes in fair value are recognized within OCI. Subsequent to derecognition, the change in accumulated fair value recognized in OCI is recognized within profit or loss.

For equity instruments, after initial recognition, the Group may elect to irrevocably classify its capital investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recognized as gains or losses. Dividends are recognized as other income within the income statement when the right to payment has been established, except when the Group benefits from said income as a recovery of part of the cost of the financial asset, in which case said earnings are recorded within OCI. Equity instruments designated at fair value through OCI are not subject to impairment evaluation.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated at initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of sale or repurchase in the short term. Derivatives, including embedded implicit derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not only capital and interest payments are classified and measured at fair value through profit or loss, regardless of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through OCI as described above, debt instruments can be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting disconnect.

Financial assets at fair value through profit or loss are recorded within the Statement of Financial Position, at fair value with net changes, recognized within the statement of comprehensive income.

This category includes derivatives and listed equity investments that the Group had not irrevocably chosen to be classified at fair value through OCI. Dividends on listed equity investments are also recognized as other income in the statement of comprehensive income when the right to payment has been established.

Impairment of financial assets

The Group recognizes a reserve for expected credit losses (ECL) for all debt instruments that are not held at fair value through profit or loss. The 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.

The Group applies a simplified approach when calculating ECL for trade accounts receivable and contractual assets. Therefore, the Group does not track changes in credit risk, but recognizes a loss adjustment based on ECL for life at each reporting date. The Group has established a provision matrix that is based on its historical experience of credit losses, adjusted by specific prospective factors for debtors and the economic environment.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized primarily when:

- The rights to receive cash flows from the asset have expired.
- The Group has transferred its rights to receive cash flows from the asset or has assumed the obligation to pay the cash flows received in full without significant delay to a third party under a "transfer" agreement, and (a) the Group has transferred substantially all the risks and benefits of the asset, or (b) the Group has not transferred or retained substantially all the risks and benefits 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 transfer agreement, it evaluates whether and to what extent it has retained the risks and benefits of ownership. When it has not transferred or retained substantially all the risks and benefits of the asset, nor transferred control of the asset, the Group continues to recognize the asset transferred to the extent of its continued participation. In this case, the Group also recognizes 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.

The ongoing participation that takes the form of a guarantee on 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 may have to repay.

(ii) Financial Liabilities

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

All financial liabilities are initially recognized at fair value and, in the case of loans and debt and accounts payable, net of directly attributable transaction costs.

The Group's financial liabilities include trade accounts payable and other accounts payable, loans and debt, including bank overdrafts and derivative financial instruments.

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

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the short term. This category also includes derivative financial instruments entered by the Group that are not designated as hedging instruments in the hedging relationships defined by IFRS 9. Separate embedded derivatives are also classified as held for trading unless they are designated as equity instruments, effective coverage.

Gains or losses on liabilities held for trading are recognized in the consolidated statement of income

The financial liabilities designated in the initial recognition at fair value through profit or loss are designated at the initial recognition date, and only if the criteria of IFRS 9 are met. The Group has not designated any financial liability at fair value with changes in results.

Loans carried at amortized cost

This is the most relevant category for the Group. After initial recognition, interest-bearing loans are subsequently measured at amortized cost using the effective interest method (EIM). Profits and losses are recognized in results when liabilities are derecognized in accounts, as well as through the EIM amortization process.

The amortized cost is calculated considering any discount or premium on the acquisition and the fees or costs that are an integral part of the EIM. The amortization of the EIM is included as financial costs in the income statement.

This category generally applies to loans and debt that accrue interest.

Derecognition financial instruments

Financial liability is derecognized when the obligation under the liability is canceled or expires. When an existing financial liability is replaced by another of the same lender in substantially different terms, or the terms of an existing liability are substantially modified, said exchange or modification is treated as the derecognition of the original liability and recognition of a new liability. The difference in the respective carrying amounts is recognized within the income statement.

Compensation of assets and financial liabilities

Financial assets and liabilities are offset, and the net amount is recorded within the consolidated statements of financial position, if and only if, you have the legal right to offset the amounts recognized and there is an intention to cancel them on a net basis, or, to realize the assets and cancel the liabilities simultaneously.

(iii) Fair value of financial instruments

The fair value of the financial instruments that are traded in the active markets on each reporting date is based on the prices quoted by the market (on the prices of purchase and sale prices on the stock exchange), not including deductions for transaction costs.

In the case of financial instruments that are not traded in active markets, fair value is determined using valuation techniques. Said techniques may include recent purchase and sale transactions at arm's length prices, reference to the fair value of other basically identical financial instruments, an analysis of the discounted cash flow, or recourse to other valuation models.

Note 19 includes an analysis of the fair values of financial instruments and more details on how they are valued.

(iv) Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments, such as call option commodity contracts, to hedge its commodity price risks, specifically WTI or jet fuel prices. Said derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered. Subsequent to initial recognition, derivatives are carried at fair value as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Future commodities contracts that are entered and continue to be held for the purpose of the receipt or delivery of a non–financial item in accordance with the Group’s expected purchase, sale or usage requirements are held at cost.

Any gains or losses arising from changes in the fair value of derivatives are taken directly into the consolidated statement of comprehensive income, excluding the effective portion of derivatives assigned as cash flow hedges, which is recognized within other comprehensive income.

Cash flow hedges

The Group formally designates and documents the hedge relationship at the inception of a hedge relationship, to which the Group wishes to apply hedge accounting and the risk management objective and 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 entity will assess the effectiveness of changes in the hedging instrument’s fair value in offsetting the exposure to changes in the hedged item’s cash flows attributable to the hedged risk. Said hedges are expected to be highly effective in offsetting variations in cash flows and are assessed on an ongoing basis to determine that they have been highly effective throughout the financial reporting periods for which they were designated.

Cash flow hedges which meet the strict criteria for hedge accounting are accounted for as follows:

The effective portion of the gain or loss on the hedging instrument is recognized directly as other comprehensive income within equity, while any ineffective portion of cash flow hedge related to operating and financing activities is recognized immediately within the consolidated statement of comprehensive income.

Amounts recognized as other comprehensive income are transferred to the consolidated statement of comprehensive income when the hedged transaction affects earnings, such as when the hedged financial income or financial expense is recognized or when an expected sale occurs. In the instance where the hedged item is the cost of a non–financial asset or non–financial liability, the amounts recognized as other comprehensive income are transferred to the initial carrying amount of the non–financial asset or liability.

If the expected transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognized in equity is transferred to the consolidated statement of comprehensive income. If the hedging instrument expires or is sold, terminated, or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognized in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

Current versus non–current classification of derivatives instruments

Derivative instruments that are not designated as effective hedging instruments are classified as current or non–current or separated into a current and non–current portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

In the instance where the Group holds a derivative as an economic hedge (and does not apply hedge accounting) for a period exceeding 12 months after the reporting date, the derivative is classified as non–current (or separated into current and non–current portions) consistent with the classification of the underlying item.

Derivative instruments that are designated as, and are effective hedging instruments, are classified consistent with the classification of the underlying hedged item. The derivative instrument is separated into a current component and a non–current component only if a reliable allocation can be made.

Embedded derivatives are separated from the host contract and are accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through other comprehensive income.

(q) Expendable spare parts and supplies

Expendable spare parts and supplies are shown at the lower of their cost and replacement cost. The cost is determined based on the weighted average cost method (WAC). The replacement cost is the estimated purchase price in the ordinary course of business.

(r) Cash and Cash equivalents

Cash and cash equivalents in the condensed consolidated interim financial statements position are comprised of cash at banks and on hand and short–term deposits with original maturity of six months or less, which are subject to an insignificant risk of change in value.

For the consolidated statement of cash flows, cash and cash equivalents are comprised of cash and short–term deposits as defined above, net of outstanding bank overdrafts, if any.

(s) Impairment of non–financial assets

The Group reviews flight equipment and other long-lived assets used in operations for impairment losses when events and circumstances indicate the assets may be impaired. Factors which could be indicators of impairment include, but are not limited to, (1) a decision to permanently remove flight equipment or other long-lived assets from operations, (2) significant changes in the estimated useful life, (3) significant changes in projected cash flows, (4) permanent and significant declines in fleet fair values and (5) changes to the regulatory environment. For assets held for sale, the Group discontinues depreciation and records impairment losses when the carrying amount of these assets is greater than the fair value less the cost to sell.

For purposes of this testing, the Group has identified the air transportation business unit and the loyalty program as the lowest level of identifiable cash flows. An impairment loss is recognized if the carrying amount exceeds its recoverable amount.

The recoverable amount of an asset, or cash-generating unit ("CGU"), is the greater of its value in use or its fair value less cost of disposal. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time, value of money, and the risks specific to the asset or CGU.

Goodwill and indefinite-lived intangible assets are not amortized but are reviewed for impairment annually or more frequently if events or circumstances indicate that the asset may be impaired.

Impairment losses are recognized within profit or loss and are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the current amount of the other assets in the CGU on a pro rata basis.

(t) Maintenance deposits

Maintenance deposits correspond to deposits paid to lessors based on cycles, flight hours, or fixed monthly amounts, depending on the specific nature of each provision. Rates used for the calculation and monthly amounts are specified within each lease agreement. Maintenance deposits paid to aircraft lessors are recorded within "Deposits and other assets" when they are susceptible for recovery, to the extent that said amounts are expected to be used to fund future maintenance activities. Deposits that are not probable of being used to fund future maintenance activities are expensed as incurred.

The maintenance deposits refer to payments made by the Group to leasing companies to be used in future aircraft and engine maintenance work. Management performs regular reviews of the recovery of maintenance deposits and believes that the values reflected in the consolidated statement of financial position are recoverable. These deposits are used to pay for maintenance performed and could be reimbursed to the Group after the execution of a qualifying maintenance service or when the leases are completed, according to the contractual conditions. Certain lease agreements establish that the existing deposits in excess of maintenance costs are non-refundable. This occurs when the amount used in future maintenance services are lower than the amounts deposited. Any excess amounts expected to be retained by the lessor upon the lease contract termination date, which are not considered material, are recognized as additional aircraft lease expense. Payments related to maintenance that the Group does not expect to perform are recognized when paid as additional rental expense. Certain aircraft lease agreements do not require maintenance deposits.

(u) Security deposits for aircraft and engines

The Group is required pay security deposits for certain aircraft and engine lease agreements. Reimbursable aircraft deposits are stated at cost.

Deposits that have fixed or determinable payments that are not quoted in an active market are recorded as "Deposits and other assets". Said assets are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate.

Guarantee and collateral deposits are represented by amounts deposited with lessors, as required at the inception of the lease agreements. The deposits are typically denominated in U.S. Dollars, do not bear interest and are reimbursable to the Group upon termination of the agreements.

(v) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably and is more likely than not that an outflow of economic benefits will be required to settle the obligation in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

Provisions are established for all legal claims related to lawsuits for which it is probable that an outflow of funds will be required to settle the legal claims obligation net of insurance and a reasonable estimate can be made. The assessment of probability of loss includes assessing the available evidence, the hierarchy of laws, available case law, the most recent court decision and their relevance within the legal system, as well as the legal counsel's assessment.

If the effect of the time value of money is material, provisions are discounted using a current pre–tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a financial cost.

(i) Provision for return condition

On the lease commencement date, the Group records a provision to accrue for the cost that will be incurred in order to return the leased aircraft to their lessor in the agreed-upon condition, which is capitalized in the right-of-use asset and recognized as a liability for return condition. The methodology applied to calculate said provision requires management to make assumptions, including the future costs of returning the aircraft, discount rate, and aircraft utilization.

The cash flows are discounted at the interest rate applied in the measurement of the lease liability. Any variation in the actual maintenance cost incurred and the amount of the provision is recorded under "Maintenance and repairs" in the consolidated statement of profit or loss.

(w) Employee Benefits

The Group sponsors defined employee benefit pension plans which require contributions to separately administered funds. The Group also provides certain additional post–employment benefits to senior employees in Colombia. These benefits are unfunded. The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit cost method.

Actuarial gains and losses for defined benefit plans are recognized in full during the period in which they occur within other comprehensive income.

The defined benefit asset or liability is comprised of the present value of the defined benefit obligation (using a discount rate based on Colombian Government bonds) less the fair value of plan assets from which the obligations are to be settled. Plan assets are held by the La Caja de Auxilios y de Prestaciones de la Asociación Colombiana de Aviadores Civiles ("CAXDAC") Pension Administrator. Plan assets are not available for payments to creditors and cannot be paid directly to the Group. Fair value is based on market price information and in the case of quoted securities on the published bid price. The value of any defined benefit asset recognized is restricted and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

Under IAS 19 (issued in June 2011 and amended in November 2013), the Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset). It considers any changes in the net defined benefit liability (asset) during the period related to contributions and benefit payments. The net interest on the net defined benefit liability (asset) comprises:

- Interest income on plan assets
- Interest cost on the defined benefit obligation; and
- Interest on the effect of the asset ceiling

Additionally, the Group offers the following employee benefits:

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an expense within the consolidated statement of comprehensive income when they are due.

(ii) Termination benefits

Termination benefits are recognized as an expense at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

(x) Prepaid expenses

(i) Prepaid commissions

Commissions paid for tickets sold are recorded as prepaid expenses and expensed when tickets are used.

(ii) Prepaid rent

Prepaid rent for aircraft corresponds to prepaid contractual amounts that will be applied to future lease payments over a term of less than one year.

(y) Interest income and interest expense

Interest income is comprised of interest income on funds invested (including available–for–sale financial assets), changes in the fair value of financial assets at fair value through the consolidated statement of comprehensive income and gains on interest rate hedging instruments that are recognized within the consolidated statement of comprehensive income. Interest income is recognized as accrued within the consolidated statement of comprehensive income, using the effective interest rate method.

Interest expense is comprised of interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through the consolidated statement of comprehensive income, and losses on interest rate hedging instruments that are recognized in the consolidated statement of comprehensive income. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized within the consolidated statement of comprehensive income using the effective interest method.

(3) New and amended standards, interpretations and amendments adopted by the Group

The Group initiated the application of certain standards and amendments to standards, effective for those reporting periods subsequent to January 1, 2022. The Group has not applied any standards, interpretations or amendments that have been issued by IASB but are not yet effective. Management does not expect that the adoption of said Standards will have a material impact on the Group's future financial statements. These standards are as follows:

(3.1) Standards issued but not yet effective

The following modifications are effective for the periods beginning and subsequent to January 1, 2023:

Definition of an accounting estimate (amendments to IAS 8)

- The amendments introduce a new definition of accounting estimates clarifying that these are monetary amounts within the financial statements that are subject to uncertainty related to their calculation.
- The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the established accounting policy's objective.

This amendment is effective as of January 1, 2023

Disclosure of Accounting Policies (amendments to IAS 1 and IFRS Practice Statement 2)

- The Board recently issued amendments to IAS 1 Presentation of Financial Statements and an update to IFRS Statement of Practice 2 Making Materiality Judgments which enables companies to provide useful information on accounting policies.

- Information on accounting policies is material if, when considered in conjunction with other information included within an entity's financial statements, it can reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make based on said financial statements.

This amendment is effective as of January 1, 2023

Classification of Liabilities as Current or Non-Current (amendments to IAS 1)

- Modifies the requirement to classify a liability as current by establishing that a liability is classified as current when "at the end of the reporting period it does not have the right to defer the settlement of the liability for at least the following twelve months."
- Clarifies within paragraph 72A that "the right of an entity to defer the settlement of a liability for at least twelve months after the reporting period must be substantial and, as paragraphs 73 to 75 illustrate, must exist at the end of the reporting period."

This amendment is effective as of January 1, 2023.

Lease Liability in a Sale and Leaseback

- The IASB has amended IFRS 16, adding subsequent measurement requirements for sale and leaseback transactions.

This amendment is effective as of January 1, 2024.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

- The amendments to IFRS 10 and IAS 28 address those situations wherein there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method are recognized within the parent company's profit or loss only to the extent of the unrelated investors' interests in said associate or joint venture. Similarly, gains and losses resulting from the reassessment of investments retained within any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized within the former parent company's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

  The effective date of said amendments has yet to be established by the IASB. However, prior application of the amendments is permitted in the interim. The directors of the Group anticipate that the application of these amendments could impact the Group's consolidated financial statements in future periods should such transactions arise.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

- The amendments introduce a further exception from the initial recognition exemption. Based on the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences.
- Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting nor taxable profit. For example, this may arise upon recognition of a lease liability and the corresponding right-of-use asset applying IFRS 16 at the commencement date of a lease.
- Following the amendments to IAS 12, an entity is required to recognize the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in IAS 12.

This amendment is effective January 1, 2023. The directors of the Group anticipate that the application of these amendments may impact the Group's consolidated financial statements in future periods should such transactions arise.

(4) Segment Information

The Group reports information by segments as established in IFRS 8 “Operating segments”. The Group has two reportable segments, as follows:

- Air transportation: Corresponds to passenger and cargo operating revenues on scheduled flights and freight transport, respectively.
- Loyalty: Corresponds to the loyalty program for the Avianca Group International Limited airline subsidiaries.

The Board of Directors is the Chief Operating Decision Maker (CODM) and monitors the operating results of its reportable segment separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on statement of comprehensive income and is measured consistently with the Group´s consolidated financial statements.

(In USD thousands)

The Group's operational information by reportable segment for the nine months ended September 30, 2022 is as follows:

	For the nine months ended September 30, 2022			
	Air transportation	Loyalty	Eliminations	Consolidated
Operating revenue				
External customers	$2,753,206	$209,314	$ —	$2,962,520
Inter-segment	1,720	2,130	(3,850)	—
Total operating revenue	**2,754,926**	**211,444**	**(3,850)**	**2,962,520**
Operating expenses before depreciation and amortization	2,602,019	122,456	(3,850)	2,720,625
Depreciation and amortization	275,823	16,487	(6,116)	286,194
Operating Loss	**(122,916)**	**72,501**	**6,116**	**(44,299)**
Interest expense	(273,516)	(24,556)	—	(298,072)
Interest income	7,569	1,239	—	8,808
Other financial income	(11)	—	—	(11)
Foreign exchange	(4,559)	(4)	—	(4,563)
Equity method profit	421	—	—	421
Income tax expense	(22,354)	(38)	—	(22,392)
Net Loss for the period, from continuing operations	**(415,366)**	**49,142**	**6,116**	**(360,108)**
Profit from discontinuing operations	3,257	—	—	3,257
Net Loss for the period	**(412,109)**	**49,142**	**6,116**	**(356,851)**
Total Assets – September 30, 2022	**$6,380,520**	**$1,261,474**	**$(113,659)**	**$7,528,335**
Total Liabilities – September 30, 2022	**$5,900,331**	**$815,016**	**$(26,887)**	**$6,688,460**

Inter-segment revenues are eliminated upon consolidation and are reflected within the "Eliminations" column.

The Group's revenues by geographic area for the nine and three months ended September 30, 2022, are as follows:

	For the nine months ended September 30, 2022	For the three months between July 1 and September 30, 2022
Colombia	$ 1,322,790	$ 483,871
Central America and the Caribbean	571,331	213,403
United States of America	510,040	199,672
South America (excluding Colombia)	424,239	164,083
Other	134,120	67,544
Total operating revenue	**$ 2,962,520**	**$ 1,128,573**

The Group allocates revenues by geographic area based on a given flight's point of origin. Non-current assets are comprised primarily of aircraft and aeronautical equipment, which are used throughout different countries and are therefore not assignable to any geographic area.

(5) Seasonality

The results of operations for any interim period are not necessarily indicative of those for the entire year due to the fact that the business is subject to seasonal fluctuations. These fluctuations are the result of high vacation and leisure demand occurring during the northern hemisphere's summer season during the third quarter (principally in July and August) and again during the fourth quarter (principally in December) as well as in January.

The lowest levels of passenger traffic are concentrated within the months of February, March and May. Given the proportion of fixed costs, the Avianca Group International Limited and its subsidiaries expect quarterly operating results to continue to fluctuate on a quarterly basis. This information is provided to improve understanding of the Company's results. However, management has concluded that this does not constitute "highly seasonal" as defined by IAS 34.

(6) Foreign exchange

For the nine-month period ended September 30, 2022, the Group recognized a net foreign exchange loss of $4,563, primarily due to a 13.84% increase in the U.S. dollar exchange rate relative to the Colombian Peso compared to December 2021.

(7) Employee benefits

The Group sponsors defined benefit pension plans which require contributions to be made to separately administered funds. The Group also provides certain additional post-employment benefits. These benefits are unfunded as of September 30, 2022. The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit cost method. Actuarial gains and losses for defined benefit plans are recognized in full during the period in which they occur within other comprehensive income.

The defined benefit liability is comprised of the present value of the defined benefit obligation using a discount rate based on government bonds for each country where the respective benefit plan is established, less the fair value of plan assets out of which the obligations are to be settled. As of September 30, 2022, the fair value of the plan assets held by CAXDAC exceeds the present value of Avianca S.A. defined benefit obligation. Plan assets are not available to creditors of the Group and cannot be paid directly to the Group. Fair value is based on market price information and on the published bid price in the case of quoted securities. The value of any defined benefit asset recognized is restricted to the sum of any past service costs and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

The discount rate indexed by actuarial valuation of the all-pension liability plans and post-retirement medical benefits for the Group's plans was 12.07% on September 30, 2022, and 8.71% in December 2021. there was an Actuarial valuation of the pension liability plans decreased for the nine-month period ended September 30, 2022, due to the increase in the discount rate, resulting in a $43,932 gain in Other Comprehensive Income.

(In USD thousands)

(8) Cash and cash equivalents and restricted cash

	September 30, 2022	December 31, 2021
Cash on hand and bank deposits	$ 700,514	$ 1,159,477
Demand and term deposits (1)	43,516	42,282
Cash and cash equivalents	**$ 744,030**	**$ 1,201,759**
Restricted cash (2)	$ 36,935	$ 76,572
Restricted cash	**$ 36,935**	**$ 76,572**

(1) As of September 30, 2022, term deposits accrued annual interest rates between 2.27% and 8.33% in Colombian pesos and between 2.25% and 4.10% in U.S. dollars. As of December 31, 2021, term deposits accrued annual interest rates between (2.02%) and 2.60% in Colombian pesos and between 2.02% and 3.36% in U.S. dollars. The use of term deposits depends on the Group's cash requirements during the period.

(2) As of September 30, 2022, the decrease in restricted cash corresponds primarily to the payment of the outstanding amount of the retained professional fees. These payments were made from the designated escrow account of Delaware Trust and are in accordance with the final fee order of Chapter 11 reorganization process.

(9) Trade and other receivables, net of expected credit losses

	September 30, 2022	December 31, 2021
Trade	$ 228,710	$ 188,908
Employee advances	3,301	3,282
Other	8,932	19,157
	240,943	**211,347**
Less estimate for expected credit losses (1)	(4,977)	(3,784)
Total net current	**$ 235,966**	**$ 207,563**

(In USD thousands)

Trade receivables are non-interest bearing.

(1) Changes during the nine-month period ended September 30, 2022, in the provision for expected credit losses are as follows:

	Septiembre 30, 2022	December 31, 2021
Balance at beginning of year	$ 3,784	$ —
Provision for expected credit losses	1,193	3,784
Total	**$ 4,977**	**$ 3,784**

(10) Balances and transactions with related parties

As of September 30, 2022, the Group reported payables to related parties for $91 and receivables to related parties for $101,199. During the period, the Group reported revenues from related parties of $2,068.

		September 30, 2022		
Company	**Country**	**Receivables**	**Payables**	**Revenues**
Corporación Hotelera Internacional S.A	Colombia	$ —	$ 47	$ —
Hotelería Internacional S.A	Colombia	—	1	—
MRO Commercial S A	Colombia	—	43	2,068
Investment Vehicle 1 Limited	Cayman Islands	101,199	—	—
Total		**$ 101,199**	**$ 91**	**$ 2,068**

Avianca Group International Limited (AGIL) entered into an intercompany agreement with Investment Vehicle 1 Limited (IV1) for a total amount of US$97,800. This intercompany loan has a term of five years, the interest for which to be capitalized on and added to the outstanding balance, to be paid on the maturity date.

Key management personnel compensation expense

During the nine- and three-month periods ended September 30, 2022, the short-term employee benefits for key management personnel were $11,193 and $3,679, respectively. The Group does not offer long-term benefits including post-employment benefits, a defined contribution plan, termination benefits or other long-term benefits for key management personnel.

(In USD thousands)

Short-term employee benefits were as follows:

	For the nine months ended September 30, 2022	For the three months ended September 30, 2022
Salaries/Bonuses/Cash Benefits	$ 9,517	$ 2,970
Benefits/Social Charges	1,207	579
Others	469	130
Total	**$ 11,193**	**$ 3,679**

(11) Short term investments, deposits, and other assets

Deposits and other assets as of September 30, 2022 and December 31, 2021 are as follows:

	Notes	September 30, 2022	December 31, 2021
Short term investments (1)		$ 44,793	$ 42,260
Total		**$ 44,793**	**$ 42,260**
Deposits and other assets - short term:			
Deposits with lessors (2)		$ 3,016	$ 1,551
Guarantee deposits (3)		14,678	12,498
Others		3,262	3,870
Subtotal		**20,956**	**17,919**
Fair value of derivative instruments	18	1,094	—
Total		**$ 22,050**	**$ 17,919**
Deposits and other assets - long term:			
Deposits with lessors (2)		45,061	16,901
Guarantee deposits (3)		10,359	12,481
Others (4)		13,432	91
Loan Receivable		2,542	—
Long term investments		6,279	6,447
Subtotal		**77,673**	**35,920**
Total		**$ 99,723**	**$ 53,839**

(In USD thousands)

(1) The short-term classification corresponds to funds invested for terms of less than one year; investments correspond to CDTs and bonds constituted by trusts held by the Group.

(2) Corresponds primarily to operating lease aircraft agreement security deposits. These deposits are recoverable.

(3) Corresponds to the amounts paid to suppliers in relation to airport facility leasing, among other service agreements and lawsuit deposits.

(4) Corresponds to court deposits to guarantee civil and labor lawsuits, which remains in court until the resolution of the disputes to which they are related.

(12) Assets and liabilities of held for sale

	September 30, 2022	December 31, 2021
Airbus aircraft (1)	$ —	$ 322,890
Disposal group held for sale (2)	13,441	—
Total assets held for sale	**$ 13,441**	**$ 322,890**
Liabilities associated with the assets held for sale	$ 6,250	$ 317,667
Total liabilities held for sale	**$ 6,250**	**$ 317,667**

(1) On December 31, 2021, certain Group subsidiaries signed a Letter of Intent for a sale and leaseback agreement with Airopco 1ET Bermuda Ltd. and Castlelake Aviation Finance Designated Activity Company for the sale of 15 aircraft: 5 Airbus A330F, 6 Airbus A319, 2 Airbus A320 and 2 Airbus A321. As of September 30, 2022, the sale of said assets had been fully completed.

(2) Disposal of group held for sale within Servicios Aeroportuarios Integrados SAI S.A.S. (See note 12.1)

(12.1) Discontinued operation of Servicios Aeroportuarios Integrados - SAI S.A.S.

AGIL's Board of Directors approved on February 17, 2022 the divestiture of Servicios Aeroportuarios Integrados SAI S.A.S. ("SAI S.A.S.") a Colombia-based subsidiary operating within the air transportation segment. SAI S.A.S is therefore presented as a disposal group held for sale.

A share purchase agreement ("SPA") was entered into by (i) AV Investments Two Colombia S.A.S. ("AV Investments"), a subsidiary of Avianca Group International Limited, (ii) Gabriel and Gloria Serrano (the "Serrano Family" together with AV Investments, the "Sellers"), (iii) Avianca Group (UK) Limited, a subsidiary of the Company, as guarantor thereto, and (iv) TSA Investments Inc. S.A. ("TSA"), a subsidiary of Talma Servicios Aeroportuarios S.A. ("Talma"), as buyer thereto on March 26, 2022. Subject to customary closing conditions set forth in the SPA, as well as antitrust clearance from the Colombian competition authority, the Sellers shall transfer all their equity interests in SAI S.A.S. to TSA. SAI and

(In USD thousands)

Talma must remain independent actors within the Colombian ground handling market and continue to compete in the ordinary course of business until the transaction has closed.

As of September 30, 2022, the disposal group was comprised of $13,441 in assets less $6,250 in liabilities, detailed as follows:

Cash	$ 6,352
Carrying assets, other than cash	7,089
Carrying amount liabilities	(6,250)
Net Assets of the subsidiary	**$ 7,191**

For the nine and three months ended September 30, 2022 results from discontinued operations are as follows:

	For the nine months ended September 30, 2022	**For the three months ended September 30, 2022**
Operating revenue:		
Cargo and other	$ 8,067	$ 3,081
Total operating revenue	**8,067**	**3,081**
Operating expenses	3,682	781
Total operating expenses	**3,682**	**781**
Operating profit	**4,385**	**2,300**
Non-Operating expenses	(34)	(25)
Profit before income tax	**4,351**	**2,275**
Income tax expense	(1,094)	(296)
Net profit from discontinuing operations	**$ 3,257**	**$ 1,979**

(13) Property and equipment, net

- Flight equipment: additions during 2022 primarily correspond with the recognition of the right of use of aircraft operating lease agreements in the amount of $925,046 and right of use for return conditions in the amount of $425,650 as well as the acquisition of three (3) Airbus A320 spare engines in the amount of $21,218.

- Capitalized maintenance: primary additions for the nine months ended September 30, 2022, correspond with major repairs (overhaul) for engines in the amount of $56,258 and fuselage in the amount of $4,336.

- Other property and equipment: as of September 30, 2022, the additions correspond to projects in progress in the amount of $13,766, tools and other assets in the amount of $2,555 and machinery and equipment in the amount of $2,186.

Reimbursement of equipment acquisition

As of September 30, 2022, the equipment acquisition reimbursement was $55,070.

(In USD thousands)

	Flight Equipment	Capitalized Maintenance	Rotable Spare parts	Predelivery payments of aircraft	Administrative property	Others	Total
Cost:							
December 31, 2021	**$ 1,078,386**	**$ 6,713**	**$ 162,549**	**$ 85,736**	**$ 103,716**	**$ 232,143**	**$ 1,669,243**
Additions	946,265	60,594	39,106	1,285	154	18,507	1,065,911
Disposals	(15,432)	(5,144)	(14,411)	—	(407)	(9,240)	(44,634)
Transfers	—	1,325	—	—	—	(1,325)	—
Return Conditions	425,650	—	—	—	—	—	425,650
Transfer to held for sale	—	—	—	—	—	(20,186)	(20,186)
Revaluation administrative property	—	—	—	—	(3,559)	—	(3,559)
September 30, 2022	**$ 2,434,869**	**$ 63,488**	**$ 187,244**	**$ 87,021**	**$ 99,904**	**$ 219,899**	**$ 3,092,425**
Accumulated depreciation:							
December 31, 2021	**$ 5,253**	**$ 737**	**$ 781**	$ —	**$ 136**	**$ 2,874**	**$ 9,781**
Additions	201,316	662	8,217	—	1,134	24,935	236,264
Disposals	(1,050)	(392)	(3,376)	—	(243)	(6,979)	(12,040)
Transfers	228	—	(228)	—	—	—	—
Transfer to held for sale	—	—	—	—	—	(17,718)	(17,718)
September 30, 2022	**$ 205,747**	**$ (1,007)**	**$ 5,394**	$ —	**$ 1,027**	**$ 3,112**	**$ 216,287**
Net:							
December 31, 2021	**$ 1,073,133**	**$ 5,976**	**$ 161,768**	**$ 85,736**	**$ 103,580**	**$ 229,269**	**$ 1,659,462**
September 30, 2022	**$ 2,229,122**	**$ 62,481**	**$ 181,850**	**$ 87,021**	**$ 98,877**	**$ 216,787**	**$ 2,876,138**

(In USD thousands)

	Flight Equipment	Capitalized Maintenance	Rotable Spare parts	Predelivery payments of aircraft	Administrative property	Others	Total
Cost:							
Opening Balance	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Business Combination	686,882	2,772	159,694	85,736	103,716	221,806	1,260,606
Additions	269,202	4,513	2,526	—	—	11,228	287,469
Return Conditions	126,569	—	—	—	—	—	126,569
Disposals	(2,184)	(2,655)	(482)	—	—	(80)	(5,401)
Transfers	(2,083)	2,083	811	—	—	(811)	—
December 31, 2021	**$ 1,078,386**	**$ 6,713**	**$ 162,549**	**$ 85,736**	**$ 103,716**	**$ 232,143**	**$ 1,669,243**
Accumulated depreciation:							
Opening Balance	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Additions	5,327	737	965	—	136	3,004	10,169
Disposals	(74)	—	(184)	—	—	(130)	(388)
December 31, 2021	**$ 5,253**	**$ 737**	**781**	$ —	**$ 136**	**$ 2,874**	**$ 9,781**
Net:							
December 31, 2021	**$ 1,073,133**	**$ 5,976**	**$ 161,768**	**$ 85,736**	**$ 103,580**	**$ 229,269**	**$ 1,659,462**

(In USD thousands)

(14) Intangible asset and goodwill, net

Intangible assets and goodwill, net of amortization are as follows:

	September 30, 2022	December 31, 2021
Trademarks	$ 598,968	$ 598,968
Customer Relationships	432,865	450,940
Software and webpages	105,336	118,991
Agreements (Codeshare and Star Alliance)	63,640	68,752
Routes	12,900	14,976
Slots	9,506	9,506
Subtotal	**1,223,215**	**1,262,133**
Goodwill	1,727,590	1,735,757
Total Intangible Assets	**$ 2,950,805**	**$ 2,997,890**

(In USD thousands)

The following provides detail on intangible assets and goodwill as of September 30, 2022 and December 31, 2021:

	Goodwill	Routes	Customer Relationships	Agreements (Codeshare and Star Alliance)	Trademarks	Software & Webpages	Slots	Total
Cost:								
December 31, 2021	**$1,735,757**	**$ 15,471**	**$ 452,869**	**$ 69,272**	**$ 598,968**	**$ 121,882**	**$ 9,506**	**$ 3,003,725**
Additions	—	—	—	—	—	11,730	—	11,730
Write-offs	—	—	—	—	—	(718)	—	(718)
Change in valuation IFRS 3 (1)	(8,167)	—	—	—	—	—	—	(8,167)
September 30, 2022	**$ 1,727,590**	**$ 15,471**	**$ 452,869**	**$ 69,272**	**$ 598,968**	**$ 132,894**	**$ 9,506**	**$ 3,006,570**
Accumulated Amortization:								
December 31, 2021	**$ —**	**$ 495**	**$ 1,929**	**$ 520**	**$ —**	**$ 2,891**	**$ —**	**$ 5,835**
Amortization for the period	—	2,076	18,075	5,112	—	24,667	—	49,930
September 30, 2022	**$ —**	**$ 2,571**	**$ 20,004**	**$ 5,632**	**$ —**	**$ 27,558**	**$ —**	**$ 55,765**
Carrying Amounts:								
December 31, 2021	**$ 1,735,757**	**$ 14,976**	**$ 450,940**	**$ 68,752**	**$ 598,968**	**$ 118,991**	**$ 9,506**	**$ 2,997,890**
September 30, 2022	**$ 1,727,590**	**$ 12,900**	**$ 432,865**	**$ 63,640**	**$ 598,968**	**$ 105,336**	**$ 9,506**	**$ 2,950,805**

(1) Corresponds primarily to acquisition accounting adjustment based on IFRS 3 for changes in contingent liabilities and valuations in property and equipment.

(In USD thousands)

The following provides details related to intangible assets as of December 31, 2021.

	Goodwill	Routes	Customer Relationships	Agreements (Codeshare and Star Alliance)	Trademarks	Software & Webpages	Slots	Total
Cost:								
Initial Balance	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Business Combination	1,735,757	15,471	452,869	69,272	598,968	119,747	9,506	3,001,590
Additions	—	—	—	—	—	2,135	—	2,135
December 31, 2021	**$1,735,757**	**$ 15,471**	**$ 452,869**	**$ 69,272**	**$ 598,968**	**$ 121,882**	**$ 9,506**	**$ 3,003,725**
Accumulated Amortization:								
Initial Balance	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**
Amortization for the period	—	495	1,929	520	—	2,891	—	5,835
December 31, 2021	**$ —**	**$ 495**	**$ 1,929**	**$ 520**	**$ —**	**$ 2,891**	**$ —**	**$ 5,835**
Carrying Amounts:								
December 31, 2021	**$1,735,757**	**$ 14,976**	**$ 450,940**	**$ 68,752**	**$ 598,968**	**$ 118,991**	**$ 9,506**	**$ 2,997,890**

(In USD thousands)

(14.1) Goodwill and intangible assets with indefinite useful life

For the purpose of impairment testing, goodwill acquired through business combinations is allocated to the air transportation CGU and loyalty CGU which is also the Group's operating and reporting segment.

The carrying amount of goodwill and intangible assets with indefinite useful life allocated to the air transport and loyalty segments is as follows:

	September 30, 2022	December 31, 2021
Goodwill	$ 1,727,590	$ 1,735,757
Trademarks	$ 598,968	$ 598,968
Slots	$ 9,506	$ 9,506

As of September 30, 2022, the Group did not identify potential goodwill, intangible assets nor equipment properties impairment.

Basis for calculating recoverable amount

CGU recoverable amounts have been measured based on their value-in-use.

Value-in-use is calculated using a discounted cash flow model, cash flow projections are based on the Business plan approved by the AGIL Board covering a five-year period which been impacted by decreased demand as well as by restrictions imposed by various governments in the region and correlating required capacity adjustment.

Cash flows extrapolated beyond the five-year period are projected to increase based on long-term growth rates. Cash flow projections are discounted using the CGU's pre-tax discount rate.

Cash flows used for value-in-use calculations for business plans which previously sent and approved by the Court of the Southern District of New York during the Chapter 11 process reflect the negative impact of COVID-19 and the expected progressive recovery in subsequent years, based on that information available at the time and which is being put into practice by the Directorate based on existing conditions.

Macroeconomic assumptions are based on market data derived from Bloomberg for both the expected WTI price and expected interest rate levels, which have a direct impact on cost projections. All applicable costs are affected by inflation.

Primary assumptions used in value in use calculations are as follows:

(In USD thousands)

	Air transportation September 30, 2022	**LifeMiles September 30, 2022**
CGU carrying amount	$2,454,966	$932,498
Compound revenue growth (CAGR) during the planning period	8.14%	9,80%
Compound operating expense (CAGR) during the planning period	5.68%	6,70%
Compound Capital Expenditure rise during the planning period	5.62% to 18.06%	2% to 2.45%
Duration of planning period	5 years	5 years
Revenue growth p.a. after planning period	3.6%	3.60%
Operating Income after planning period	9.26%	45%
Capital expenditures after planning period	13.49%	1.44%
Imputed Business Enterprise Value	3,016,540	1,065,988
Discount rate	17%	16%

(15) Debt

	September 30, 2022	**December 31, 2021**
Current:		
Short–term borrowings and current portion of long–term debt	$ 170,834	$ 184,410
Short-term aircraft rentals - right of use	113,377	3,330
Short-term other rentals - right of use	6,705	9,021
	$ 290,916	**$ 196,761**
Noncurrent:		
Long–term debt	$ 2,267,187	$ 2,295,041
Long-term aircraft rentals – right of use	1,318,788	524,223
Long-term other rentals – right of use	37,701	43,166
	$ 3,623,676	**$ 2,862,430**

Terms and conditions of the Group’s outstanding obligations for the period ended September 30, 2022 and December 31, 2021 are as follows:

(In USD thousands)

		September 30, 2022		
	Due through	**Weighted average interest rate**	**Nominal Value**	**Carrying Amount**
Long–term debt	2030	8,93%	$ 2,597,892	$ 2,438,021
Aircraft rentals	2034	9.30%	1,514,251	1,432,165
Other rentals	2038	7.16%	45,464	44,406
Total			**$ 4,157,607**	**$ 3,914,592**

		December 31, 2021		
	Due through	**Weighted average interest rate**	**Nominal Value**	**Carrying Amount**
Short–term borrowings	2022	7.10%	$ 17,190	$ 7,692
Long–term debt	2030	7.30%	2,927,227	2,471,759
Aircraft rentals	2032	9.64%	549,606	527,553
Other rentals	2038	7.20%	53,740	52,187
Total			**$ 3,547,763**	**$ 3,059,191**

Below the detail of the debt balance by type of loan:

	September 30, 2022	**December 31, 2021**
Aircraft	$ —	$ 10,439
Corporate	2,438,021	2,469,012
Right of use IFRS 16	1,476,571	579,740
	$ 3,914,592	**$ 3,059,191**

Primary additions during 2022 to date correspond with the recognition of Aircraft Operating Lease Agreements right of use and to acquire three (3) Airbus A320 spare engines.

Bank guarantees

In order to comply with certain contractual or operating obligations, the Group has a total of $23,430 in guarantees issued through financial entities as of September 30, 2022.

(In USD thousands)

Future payments on long-term debt

The following future payments including interests in long–term debt for the period ended September 30, 2022.

All amounts are gross and undiscounted and include contractual interest payments while excluding the impact of netting agreements.

Aircraft and corporate debt

	Years					
	One	**Two**	**Three**	**Four**	**Five and thereafter**	**Total**
September 30, 2022	$ 295,942	$ 203,473	$ 197,914	$ 222,306	$ 2,179,629	$ 3,099,264

Aircraft rights of use

	Years					
	One	**Two**	**Three**	**Four**	**Five and thereafter**	**Total**
September 30, 2022	$ 260,095	$ 73,846	$ 289,545	$ 282,105	$ 1,115,967	$ 2,021,558

Other rights of use

	Years					
	One	**Two**	**Three**	**Four**	**Five and thereafter**	**Total**
September 30, 2022	$ 4,944	$ 4,187	$ 4,875	$ 4,098	$ 67,854	$ 85,958

(In USD thousands)

Changes in liabilities derived from financing activities at September 30, 2022

	January 01, 2022	New Leases (1)	Financial Cost	Payments	Interest Payments	Transferred to held for sale (2)	Others	Reclassification	September 30, 2022
Short-term loans (excluding items listed below)	$ 7,692	$ —	$ 216	$ (10,640)	$ (216)	$ —	$ 2,948	$ —	$ —
Current portion of long-term credits (excluding items listed below)	176,718	—	153,900	(71,066)	(114,510)	(449)	1,756	24,485	170,834
Non-current portion of long-term debt	2,295,041	—	—	(1,056)	(924)	1	(1,390)	(24,485)	2,267,187
Aircraft rentals – right of use	527,553	925,809	81,078	(47,405)	(45,747)	—	(9,123)	—	1,432,165
Other rentals – right of use	52,187	—	4,070	(2,849)	(4,078)	—	(4,924)	—	44,406
Total liabilities from financing activities	**$ 3,059,191**	**$ 925,809**	**$ 239,264**	**$ (133,016)**	**$ (165,475)**	**$ (448)**	**$ (10,733)**	**$ —**	**$ 3,914,592**

(1) Corresponds primarily to Airbus A320, A319, A330F, B787 operating aircraft, three (3) Airbus A320 spare engines and additions to right-to-use for fuselage reconfiguration.
(2) Corresponds to the reclassification in the amount of $448 to Liabilities Associated with Assets Held for Sale related to debt for subsidiary Servicios Aeroportuarios Integrados SAI S.A.S.

(In USD thousands)

Changes in liabilities derived from financing activities at December 31, 2021

	Opening balance	Business Combination	New Leases (1)	Financial Cost	Payments	Interest Payments	Others	Reclassification	December 31, 2021
Short-term loans (excluding items listed below)	$ —	$ 18,767	$ —	$ 83	$ (1,577)	$ (83)	$ —	$ (9,498)	$ 7,692
Current portion of long-term credits (excluding items listed below)	—	77,566	—	6,580	(2,738)	(7,478)	(1,106)	103,894	176,718
Non-current portion of long-term debt	—	2,396,388	—	15,944	(10,090)	(758)	1,257	(107,700)	2,295,041
Aircraft rentals – right of use	—	250,301	268,545	—	(350)	(2,277)	(1,970)	13,304	527,553
Other rentals – right of use	—	52,195	—	278	(324)	(268)	306	—	52,187
Total liabilities from financing activities	$ —	**$2,795,217**	**$ 268,545**	**$ 22,885**	**$ (15,079)**	**$ (10,864)**	**$ (1,513)**	**$ —**	**$3,059,191**

(1) During 2021, the Group recognized lease liability in the amount of $268,545 for twenty-two (22) Airbus A320, A319 and A330F. The Group paid liabilities associated with assets held for sale in the amount of $161,571, comprised of $154,811 in capital and $6,760 in interest, during the period from September 27, 2021 (date of incorporation) to December 31, 2021.

(In USD thousands)

(16) Provisions for return conditions

For certain operating leases, the Group is obligated to return aircraft in a contractually predefined condition. The Group records a provision to account for the cost to be incurred to return said leased aircraft to the lessor in the agreed-upon condition, which is capitalized within the right-of-use asset and recognized as a liability for return condition.

Provisions for return conditions as of September 30, 2022 and December 31, 2021 are as follows:

	September 30, 2022	December 31, 2021
Non- current	$ 746,875	$ 272,817
Total	**$ 746,875**	**$ 272,817**

Changes in provisions for return conditions as of September 30, 2022 and December 31, 2021 are as follows:

	September 30, 2022	December 31, 2021
Opening balance	$ 272,817	$ —
Business Combination	—	146,207
Recognition of provisions (1)	425,885	126,610
Present value adjustment	48,173	—
Balance at September 30, 2022	**$ 746,875**	**$ 272,817**

(1) During the nine months ended September 30, 2022, provisions were established for aircraft which continued under this scheme.

(In USD thousands)

(17) Other Comprehensive Income ("OCI") Reserves

Changes in other comprehensive income as of September 30, 2022 is as follows:

	Attributable to owners of the Company							
	Hedging reserves (1)	**Fair value reserves (2)**	**Reserves related to actuarial gains or losses (3)**	**Income Tax of reserve related to actuarial gains and losses (4)**	**Revaluation and other reserves (5)**	**Total**	**NCI Total**	**Total**
As of December 31, 2021	**$ 194**	**$ (11)**	**$ 14,133**	**$ 638**	**$ —**	**$ 14,954**	**$ (1,255)**	**$ 13,699**
Other results comprehensive	(7,285)	(2,303)	49,000	(1,723)	39	37,728	(3,902)	33,826
As of September 30, 2022	**$ (7,091)**	**$ (2,314)**	**$ 63,133**	**$ (1,085)**	**$ 39**	**$ 52,682**	**$ (5,157)**	**$ 47,525**

(1) **Hedging Reserves**
The hedging reserve is comprised of the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flows.

(2) **Fair value reserves**
The fair value reserve is comprised of the cumulative net change in the fair value through OCI financial assets.

(3) **Reserve relating to actuarial gains and losses**
Comprised of actuarial gains or losses on defined benefit plans and post–retirement medical benefits recognized in other comprehensive income.

(4) **Income tax on other comprehensive income**
Whenever an item of other comprehensive income gives rise to a temporary difference, a deferred income tax asset or liability is recognized directly in other comprehensive income.

(5) **Revaluation and other reserves**
Relates to the revaluation of administrative buildings and properties in Colombia. The revaluation reserve is adjusted for increases or decreases in the fair value of said properties.

The following provides an analysis of items reported within the consolidated statement of comprehensive income which have been subject to reclassification, without considering items remaining in OCI which are never reclassified to profit of loss:

	September 30, 2022
Cash flow hedges:	
Reclassification during the period	
Effective valuation of cash flow hedged	$ (6,531)
	$ (6,531)
Fair value reserves:	
Valuations of investments in fair value with changes in OCI	$ (2,065)
	$ (2,065)

(In USD thousands)

(18) Derivative instruments

Derivatives recognized as hedging instruments

Financial instruments recognized as hedging instruments at fair value included within other comprehensive income as of September 30, 2022 and December 31, 2021 are as follows:

	September 30, 2022	December 31, 2021
Cash flow hedges - assets		
Fuel price	$ 1,094	$ —
Total	**$ 1,094**	**$ —**
Cash flow hedges - liabilities		
Interest rate	$ —	$ 522
Total	**$ —**	**$ 522**

The Group purchases jet fuel on an ongoing basis as its operating activities require a significant ongoing supply of this commodity. The Group has to entered commodity contracts to mitigate jet fuel price volatility while enabling highly probable jet fuel purchase forecasting, aligned with the risk management strategy outlined by the Board of Directors. The contracts are intended to hedge jet fuel price volatility for a period between one and three months based on existing purchase agreements. The Group always designates a qualifying instrument fuel price hedge in its entirety as a hedging instrument.

The Group has designated certain fuel options for 2022 as a cash flow hedge for highly probable purchases. The quantity and maturity of fuel options and their corresponding hedged items must remain the same. The West Texas Intermediate (WTI) light, sweet crude oil is the underlying global oil benchmark used for said hedging instrument, as the asset on which crude oil futures are traded on the NYMEX (New York Mercantile Exchange) from which jet fuel is derived (hedged items). The group has determined that there is an economic relationship between the hedged item and the hedging instrument.

The Group performs a qualitative assessment of effectiveness and expects that the value of the fuel options and the value of the corresponding hedged items will systematically change in opposing directions in response to movements in the price of underlying commodity if the price of the commodity increases above the strike price of the derivative.

The primary source of hedge ineffectiveness in these hedge relationships is the effect of the counterparty and the Group's own credit risk on the fair value of the option contracts, which is not reflected in the fair value of the hedged item. The Group has determined that the effect of credit risk does not influence the value changes that result from that economic relationship.

The notional value of derivatives recognized as hedging instruments for the period ended September 30, 2022 is equivalent to 2,819,582 barrels of WTI. As of December 31, 2021, the Group has no fuel price hedges in place. The following table details the commodity options outstanding at the end of the reporting period, as well as information regarding their related hedged items. Commodity options are reported within the "Deposits and other assets" line within the statement of financial position.

(In USD thousands)

Period		Strike Price Per Unit Barrel	Quantity (Barrels)	Initial Carrying amount of the hedging instruments	Change in the fair value of hedging instrument recognized in OCI	Amount from cost of hedging reserve transferred to Losses	Line item in profit or loss in which the transferred amount is included	Carrying amount of the hedging instruments for the period ended September 30, 2022
9/01/2022	9/30/2022	.100	313,794	$ 1,707	$ -	$ 1,707	Aircraft fuel	$ -
9/01/2022	9/30/2022	.140	313,794	106	-	107	Aircraft fuel	-
10/01/2022	10/31/2022	.140	331,690	222	222	-	—	-
12/01/2022	12/31/2022	.140	399,667	523	452	-	—	71
11/01/2022	11/30/2022	.100	364,640	2,395	2,095	-	—	300
12/01/2022	12/31/2022	.100	399,667	2,702	2,013	-	—	689
11/01/2022	11/30/2022	.140	364,640	376	355	-	—	21
10/01/2022	10/31/2022	.100	331,690	1,967	1,954	-	—	13
			2,819,582	**$ 9,998**	**$ 7,091**	**$ 1,814**	**Aircraft fuel**	**$ 1,094**

Financial assets and liabilities at fair value through other comprehensive income reflect the change in fair value of fuel price derivative contracts designated as cash flow hedges. Hedged items are designated future purchases deemed as highly probable forecast transactions.

Cash flow hedge liabilities are recognized within other liabilities in the consolidated statement of financial position. As of September 30, 2022 there are no hedging instruments liabilities.

The following table indicates the periods during which the cash flows associated with cash flow hedges are expected to occur, and the fair values of the related hedging instruments on September 30, 2022 and December 31, 2021:

September 30, 2022	**Fair Value**	**1–12 months**	**12–24 months**
Fuel price			
Assets	$ 1,094	$ 1,094	$ —
December 31, 2021	**Fair Value**	**1–12 months**	**12–24 months**
Interest rate			
Liabilities	$ 522	$ —	$ 522

(19) Fair value measurements

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as of September 30, 2022:

(In USD thousands)

Quantitative disclosures of fair value measurement hierarchy for assets:

Assets measured at fair value	Fair value measurement using: Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Investments	$ —	$ 30,476	$ —	$ 30,476
Assets of the benefits plan	$ —	$ 161,231	$ —	$ 161,231
Fuel price derivatives (notes 18)	$ —	$ 1,094	$ —	$ 1,094
Revalued administrative property (note 13)	$ —	$ —	$ 98,877	$ 98,877

Quantitative disclosures of fair value measurement hierarchy for liabilities:

Liabilities measured at fair value	Fair value measurement using: Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Liabilities for which fair values are disclosed				
Short–term borrowings and long–term debt (note 15)	$ —	$ 1,980,947	$ —	$1,980,947

Fair values hierarchy

The different levels have been defined as follows:

Level 1 Observable inputs such as quoted prices in active markets

Level 2 inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 inputs are unobservable inputs for the asset or liability.

For assets and liabilities that are recognized within the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in hierarchy by re–assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(In USD thousands)

Fair values have been determined for measurement and/or disclosure purposes based on the following methods:

(a) The fair value of financial assets which changes in OCI is determined by reference to the present value of future principal and interest cash flows, discounted at a market based on interest rate at the reporting date.

(b) The Group uses the revaluation model to measure the value of its land and buildings which are comprised of administrative properties. Management has determined that this constitutes one class of asset under IAS 16 based on the nature, characteristics, and risks of the property. Property fair values were determined using market comparable methods. This means that valuations performed by appraisals are based on active market prices, adjusted for difference in the nature, location, or condition of the specific property. The Group engaged accredited independent appraisers to determine the fair value of its land and buildings.

(20) Income tax expense and other taxes

	September 30, 2022	December 31, 2021
Current income tax – assets	$ 81,323	$ 82,264
Current VAT – assets	80,712	56,491
Other current taxes	36,205	30,190
Total tax – assets	**198,240**	**168,945**
Current income tax – liabilities	**$ (30,653)**	**$ (54,698)**

Income tax expense for the nine-month period ended September 30, 2022 is comprised of the following:

Consolidated statement of comprehensive income

	September 30, 2022
Current income tax:	
Current income tax charge	$ (28,445)
Deferred tax expense:	
Relating to origination and reversal of temporary differences	6,053
Income tax expense reported in the income statement	**$ (22,392)**

In addition to the amount charged to profit or loss, the following amounts relating to tax have been recognized in other comprehensive income:

	September 30, 2022
Items that will not be reclassified to profit or loss in future periods - Remeasurements of defined benefit	$ (1,545)

(In USD thousands)

No amounts relating to tax that have been recognized directly within equity.

Changes in deferred tax assets and deferred tax liabilities

Deferred tax assets		
As of December 31, 2021	$	**42,502**
Recognized in profit and loss		(2,870)
Transferred to held for sale		(262)
As of September 30, 2022	**$**	**39,370**

Deferred tax liabilities		
As of December 31, 2021	**$**	**331,729**
Recognized in profit and loss		(8,922)
Recognized in other comprehensive income		1,723
As of September 30, 2022	**$**	**324,530**

Reconciliation of the Tax Rate in accordance with the Tax Provisions and the Effective Rate:

The consolidated loss before income tax amounted to $337,716 for the nine-month period ended September 30, 2022, and income tax expense amounted to $22,392. The effective tax rate for the period was (6.6%). The corporate income tax rate in Colombia during the period was 31%. The difference between corporate income tax rate and effective tax rate are generated by subsidiaries with net losses in some jurisdictions in which deferred tax assets are not recognized due to it not being probable that taxable profits will be available against which the deductible temporary differences can be utilized.

Changes in the Colombia tax rate for 2021 and from fiscal year 2022 and subsequent years:

Year	General Rate
2021	31%
2022 and subsequent	35%*

* Aerovías del Continente Américano S.A. – Avianca S.A. has a legal stability contract which establishes a tax rate of 33% for this company only.

(In USD thousands)

Taxation for other jurisdictions is calculated at the rates prevailing within each respective jurisdiction as follows:

Country	Applicable tax rate
United Kingdom (*)	19%
Brazil	15%
Chile	27%
Costa Rica	30%
Ecuador	28%
El Salvador	30%
Guatemala	25%
Honduras	25%
México	30%
Nicaragua	30%
Panamá	25%
United States	21%

(*) Profit on ordinary activities at the standard corporate tax rate to a legal UK entity level is 19%. The Finance Act 2021 was substantially enacted in May 2021 and has increased the corporate tax rate in the United Kingdom to 25% from 19% effective from April 1, 2023.

Uncertainty over income tax treatments
The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessments of various factors, including interpretations of tax law and prior experience. There are no uncertainties over income tax treatments with adverse effect for the Group identified in the assessments performed.

Statute of Limitations
The average term of statute of limitations in the countries where the Group operates is 5 years.

(21) Provisions for legal claims

As of September 30, 2022, and December 31, 2021, the Group has been involved in various lawsuits and legal actions that arise through normal commercial activities. Of the total lawsuits and legal actions, Management has calculated a probable and eventual loss of $54,465 and $71,661, respectively. These lawsuits are reflected in the condensed consolidated interim financial statements position under the “Provision for legal claims” section.

(In USD thousands)

Changes in litigation provisions during the nine-month periods ended September 30, 2022 and December 31, 2021 are as follows:

	September 30, 2022	December 31, 2021
Balances at the beginning of the period	$ 71,661	$ —
Business Combination	—	72,350
Provisions constituted	4,514	2,327
Provisions reverse (1)	(18,014)	(1,520)
Lawsuits deposits	(3,696)	—
Provisions used	—	(1,496)
Balances at the end of the period	**$ 54,465**	**$ 71,661**

(1) Corresponds primarily to acquisition accounting adjustment based on IFRS 3 for changes in contingent liabilities of labor lawsuits.

Certain processes are considered to be contingent liabilities and are therefore classified as potential future obligations and are subsequently categorized as “remote, possible and likely”. Based on plaintiffs’ claims for the period ended September 30, 2022 and December 31, 2021, these contingencies totaled $143,896 and $124,951, respectively. Certain losses that could arise from said litigation will be covered by insurance or with funds provided by third parties. The judicial processes resolved with said forms of payment are estimated at $18,483 as of September 30, 2022 and $18,736 for December 31, 2021.

In accordance with IAS 37, the processes that the Company considers as representing an insubstantial risk are not included within the Consolidated Statements of Financial Position.

Internal investigations to determine whether we may have violated the U.S. Foreign Corrupt Practices Act and other laws

In August 2019, Avianca Holdings S.A. (“AVH”), the former parent of the subsidiaries acquired by AGIL (“the Group”), disclosed that it had discovered a business practice at the Group whereby Group employees, including members of senior management and certain members of the Company’s board of directors, provided “things of value” to government employees in certain countries which, based on its current understanding, have been limited to free and discounted airline tickets and upgrades. The Group commenced an internal investigation and retained reputable external counsel as well as a specialized forensic investigatory firm to determine whether this practice could have violated the U.S. Foreign Corrupt Practices Act or other potentially applicable U.S. and non-U.S. anti-corruption laws. In 2018, the company revised its policies to prevent said practices from reoccurring. This included limiting the number of persons at the company authorized to issue free and discounted airline tickets and upgrades and requiring additional internal approvals. In August 2019, the company voluntarily disclosed this investigation to the U.S. Department of Justice, the U.S. Securities and Exchange Commission (“SEC”), and the Colombian Financial Superintendence.

In September 2019, the Colombian Superintendence of Companies inspected the Company’s Bogotá offices and subsequently sent several requests for information, all of which were duly addressed by the Company’s management. On May 25, 2021 and again on July 2, 2021, Avianca submitted responses to the authority in upon request, indicating that the one-year period provided by Colombian Law for a preliminary inquiry had expired and, consequently, the authority was no longer empowered to pursue the investigation per applicable local law. In response, the Colombian Superintendence of Companies indicated that their understanding was that their preliminary inquiries had not yet begun. Avianca's position is that the preliminary inquiries began in September 2019 and that the one-year permitted period has expired. To the Company's knowledge and as of the date hereof, the Colombian Superintendence of Companies has not issued any further pronouncement on this matter and Avianca has not been notified of the termination of the administrative investigation.

In February 2020, the Office of the Attorney General of Colombia served Avianca with a search warrant of its offices with the objective of collecting information related to this investigation. As has been its practice, Avianca cooperated fully, including answering the information requests issued in October and November 2020; June and August 2021; and June 2022. While the information requested by the Office of the Attorney General of Colombia has been duly provided, Avianca has exercised its legal rights to ensure that its confidential and privileged information remains protected.

On May 28, 2021, the SEC informed the Company that it had "concluded the investigation as to Avianca Holdings S.A." and "does not intend to recommend enforcement action by the Commission against Avianca Holdings S.A."

On September 9, 2022, Avianca received an information request from the Office of the Attorney General of Colombia and is collecting the relevant information to respond. To the Company's knowledge and as of the date hereof, the criminal investigation by the Office of the Attorney General of Colombia remains open.

Internal Investigation regarding potential impacts at the group due to corrupt business practices at Airbus

In January 2020, Airbus, the Company's primary aircraft supplier, entered into a settlement with authorities in France, the United Kingdom and the United States regarding corrupt business practices. Airbus' settlement with French authorities references a possible request by an Avianca "senior executive" in 2014 for an irregular commission payment, which was ultimately not made. As a result of the foregoing, Avianca voluntarily initiated an internal investigation to analyze its commercial relationship with Airbus and to determine if it was the injured party of any improper or illegal acts. This internal investigation was disclosed to the U.S. Department of Justice and to the SEC as well as the Colombian Superintendence of Industry and Commerce and the Office of the Attorney General of Colombia. To the Company's knowledge and as of the date hereof, the Office of the Attorney General of Colombia and the Superintendence of Industry and Commerce are conducting preliminary investigations and the former company executive who allegedly participated has not been indicted.

Avianca is currently cooperating with all agencies. Internal investigations are ongoing and it's not possible to predict their outcome or what potential actions may be taken by local regulators or officials in this respect.

(In USD thousands)

(22) Future aircraft leases payments

The Group has one hundred twenty three (123) aircraft under operating leases for an average lease term of 69 months. Operating leases can be renewed, in accordance with the Administration's business plan. The following is the summary of the future commitments of operating leases:

	Aircraft
Less than one year	$ 308,847
Between one and five years	1,060,696
More than five years	623,640
	$ 1,993,183

Under IFRS 16, those leases that are legally denominated operative are recorded within the Consolidated Statement of Financial Position as part of ownership of plant and equipment-flight equipment as well as the recognition of the related financial liability that represents the present value of the minimum payments of the lease contract.

Future aircraft lease payments are based on the original contracts. It is important to note that certain lease payments are related to Power by the Hour contracts wherein the Group pays based on aircraft hours flown.

Avianca Group International Limited has fifty-two (52) spare engines under operating leases to support its aircraft fleet of A320, A330, A300 and B767 families. The following is a summary of future operating lease commitments:

	Aircraft
Less than one year	$ 5,286
Between one and five years	15,022
More than five years	7,974
	$ 28,282

The value of payments recognized as expenses during the period is:

	For the nine months ended September 30, 2022	For the three months between July 1 and September 30, 2022
Leases minimum payments	$ 190,536	$ 41,622

(In USD thousands)

(23) Acquisition of aircraft

In accordance with the agreements in effect, future commitments related to the acquisition of aircraft and engines as of September 30, 2022 are as follows:

	Less than one year	1-3 years	3-5 years	More than 5 years	Total
Aircraft and engine purchase commitments	$ 17,906	$ 472,886	$ 1,727,675	$ 2,841,739	$ 5,060,206

Amounts disclosed reflect certain discounts negotiated with suppliers as of the balance sheet date; discounts which are calculated on highly technical bases and are subject to multiple conditions and frequent variations. Among the factors that may affect discounts are changes in purchase agreements, including order volumes.

Based on a subsequent engine maintenance negotiation for AGIL's A320NEO fleet, a commitment amendment was signed during the first quarter of 2022 with CFM International, a 50/50 Franco-American joint venture between GE Aviation and Safran Aircraft Engines, wherein both parties agreed to add 13 spare engines to the original order, with correlating delivery dates between 2026 to 2030.

The Group plans to finance the acquisition of these commitments with the resources generated by the Group and the financial operations that can be formalized with financial entities and aircraft leasing companies.

(24) Dividends

The Group did not declare or pay dividends during the nine months ended September 30, 2022.

(In USD thousands)

(25) Operating Revenue

Operating revenues for the nine and three months ended September 30, 2022 are as follows:

	For the nine months ended September 30, 2022	%	For the three months ended September 30, 2022	%
Domestic				
Passenger	$ 1,314,583	44%	$ 507,550	45%
Cargo	285,401	10%	91,620	8%
	1,599,984	**54%**	**599,170**	**53%**
International				
Passenger	971,151	33%	401,312	35%
Cargo	328,901	11%	110,216	10%
	1,300,052	**44%**	**511,528**	**45%**
Other (1)	62,484	2%	17,875	2%
Total	**$ 2,962,520**	**100%**	**$ 1,128,573**	**100%**

(1) Other operating income

	For the nine months ended September 30, 2022	For the three months ended September 30, 2022
Frequent flyer program	$ 26,235	$ 9,161
Ground operations (a)	9,970	3,756
Maintenance	6,043	(384)
Leases	513	163
Interline	69	29
Other (b)	19,654	5,150
	$ 62,484	**$ 17,875**

(a) Group provides services to other airlines at main hub airports.

(b) Corresponds primarily to income derived from upgrades, commercial commissions, and additional services.

(26) Subsequent Events

There are no material subsequent events to be disclosed at the date of issuance of this report.

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