

Cape Town Convention A Financier's Perspective

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Summary

- Introduction of BOC Aviation
- Linkage between lessors and creditors
- Aircraft deliveries set to grow
- Aircraft funding alternatives
- EETCs & ECAs – Focus on credit rating & security
- Conclusion

Overview of BOC Aviation

BOC Aviation is a wholly owned subsidiary of Bank of China

Top 5 lessor globally by owned aircraft assets
Largest Asia-based lessor

Current portfolio of 192 aircraft

170 owned / 22 managed
Average age of owned aircraft under 4 years
53 airline customers in 32 countries

Over 370 leases executed with 80+ airlines in 40+ countries

Offices in Singapore, Dublin and Seattle

To date, BOC Aviation has acquired/ordered US\$17bn of aircraft

62 aircraft on firm order
8 aircraft on purchase and leaseback

The leading Asia based lessor at the centre of the world's growth markets

Overview - continued

Consistently profitable since establishment in 1993

- 18 years of unbroken profitability
- Critical focus on both the asset and liability sides of our balance sheet

BOC Aviation has the best corporate credit ratings amongst aircraft lessors

BOC Aviation Corporate Credit Rating		
Fitch	Long Term Issuer Default Rating	A-
	Outlook	Stable
Standard & Poor's	Long Term Issuer Default Rating	BBB
	Outlook	Stable

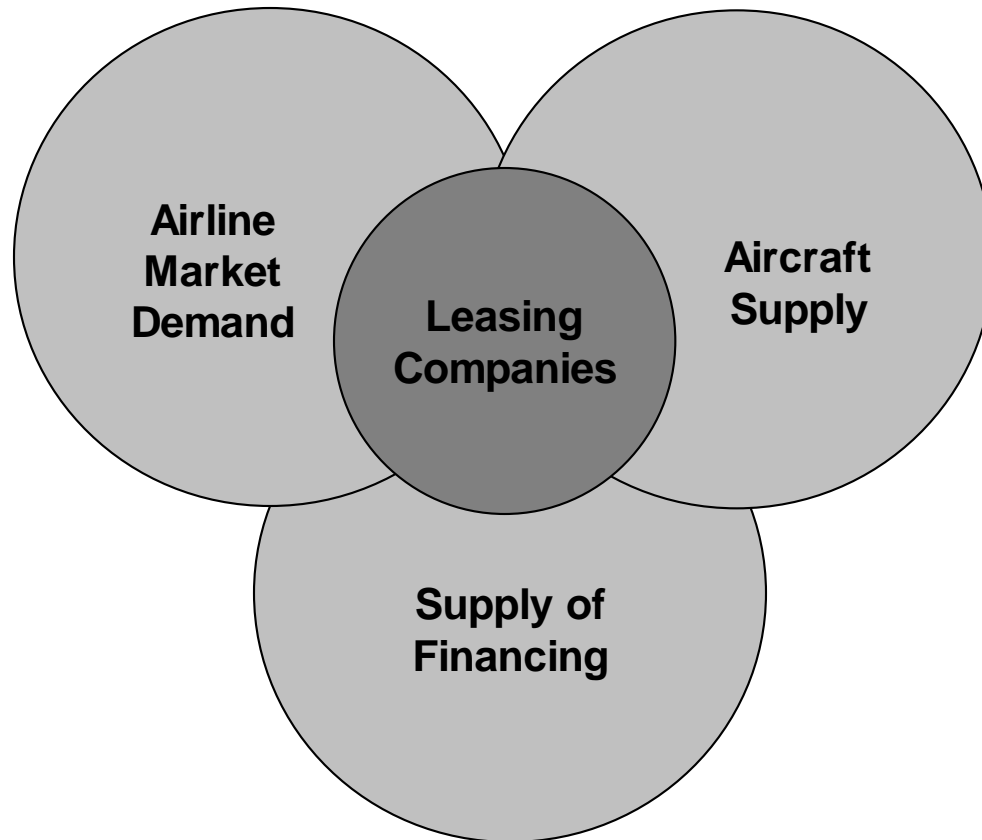
**Bank of China is the world's largest aviation financing bank.
BOC Aviation is the largest Asia-based investor in aircraft.**

Our Customers – 53 airlines



As at 21 Aug 2012

Review of External Environment



Ongoing monitoring of all cycles is key:

Airline Market Demand

- Airline cash flows driven by GDP growth & market liberalisation
- Fuel costs

Supply of Aircraft

- Manufacturer supply
- Parked aircraft

Supply of Financing

- Commercial debt
- Bond market
- Export credit

Leasing Companies

- Cost of funding is key differentiator

BOC Aviation - Banking group

Agricultural Bank of China
 Arab Bank
 Australia & New Zealand Bank
 Bank of China
 Bank of Communications
 Bank of East Asia
 Bank of Tokyo-Mitsubishi
 BNP Paribas
 Cathay United Bank
 CIMB Bank Berhad
 Citibank
 Commerzbank
 Commonwealth Bank of Australia
 DBS Bank
 DekaBank Deutsche Girozentrale
 Deutsche Bank
 Development Bank of Japan
 DVB Bank AG
 HSBC
 HSH Nordbank
 Hua Nan Commercial Bank

Industrial and Commercial Bank of China
 ING Bank
 JPMorgan Chase
 Kreditanstalt für Wiederaufbau
 LB Hessen-Thüringen (“Helaba”)
 Lloyds Banking Group
 Malayan Banking
 Mega International Commercial Bank
 Norddeutsche Landesbank
 National Australia Bank
 Natixis
 Overseas-Chinese Banking Corporation
 PEFCO
 Royal Bank of Scotland
 Santander
 Standard Chartered Bank
 Sumitomo Trust & Banking
 Sumitomo Mitsui Banking Corporation
 United Overseas Bank
 WestLB

Diversified banking group, but the world's changing

as at 31 July 2012



Regulatory Changes impacting Bank markets

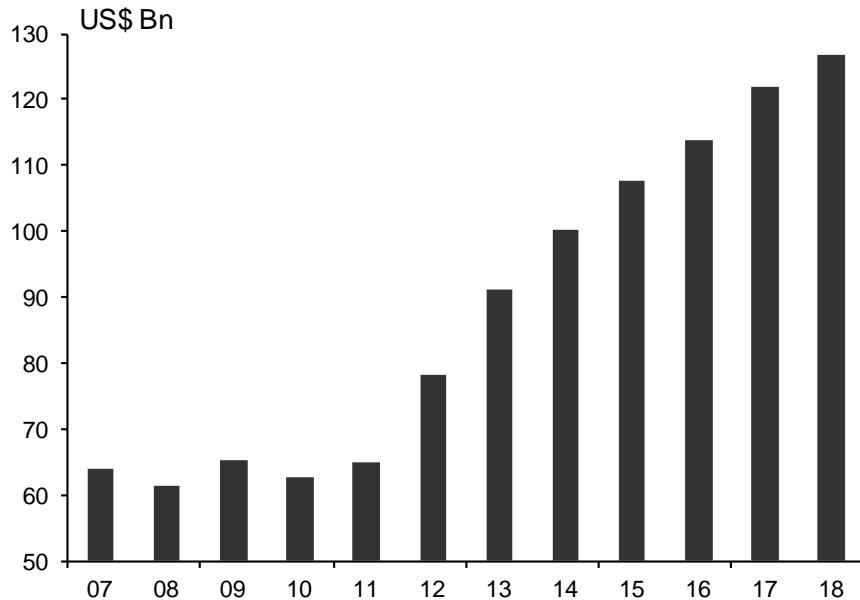
Basel III rules to permanently increase cost of aircraft funding

Ratio		Impact	
Capital ratio	-Downward pressure on transaction profitability (RoE, RAROC)	▶	↑ Cost of debt
	-Increased competition for balance sheet		↑ Focus on clients with additional business
Leverage ratio	-Decreased balance sheet capacity	▶	↓ Transaction sizes and overall capacity
Liquidity ratios	-Increased long-term funding requirement for long-term loans	▶	↓ Tenors
	-Availability of long-term funding		↓ Capacity for longer-term deals
	-Cost of long-term funding		↑ Cost of debt

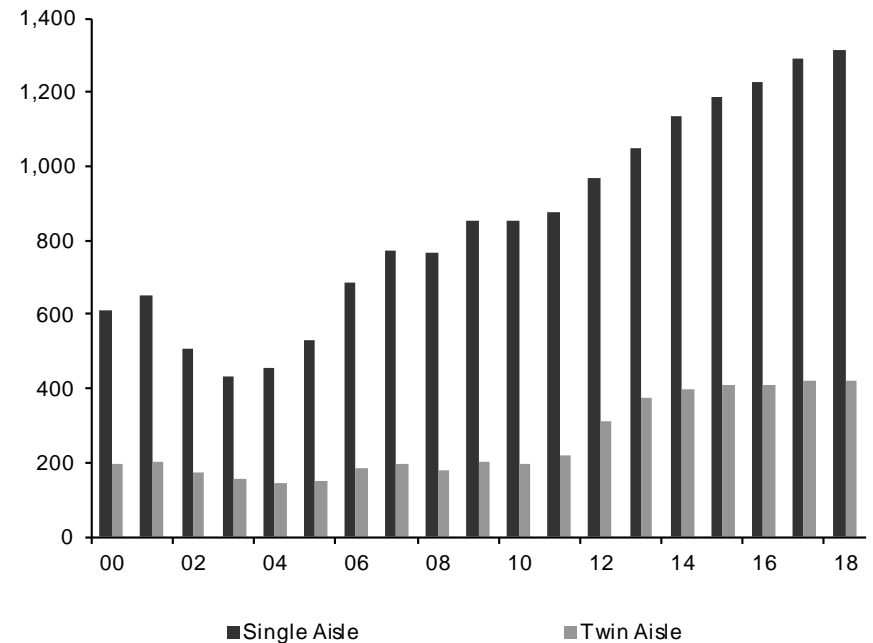
Deleveraging by the global banking industry is not helpful for asset financing

Aircraft deliveries rising

Commercial aircraft capex per annum



Commercial aircraft deliveries per annum



Source: BOC Aviation

The global airline industry is hungry for new sources of capital



Aircraft funding alternatives

Export Credit Agencies (ECA)

- Currently supporting up to 33% of all aircraft deliveries
- ECA pricing to see large cost increase from 2013 onwards
- Future capacity and demand factors worth watching
- ECA's offer funding discount for airlines subject to Cape Town

Lessors

- Operating lessors own 45% of all in-service aircraft over 100 seats
- Repossession and transition risk can pose huge cost burden

Capital Markets

- Markets have large capacity for deals with good airline/lessor names
- Collateral – ability to quickly transition assets – key to investor appetite
- US markets have been the deepest, but foreign issuers now accessing

**Airlines & lessors increasingly reliant on credit rating
& capital market access**



Capital Market Participants

“Capital Market Investors” comprises

- Insurance companies, pension funds, money managers, hedge funds, sovereign wealth funds, corporate or investment bank portfolios

Secured airline/lessor bond markets comprise mainly US investors

- Insurance companies, pension funds and money managers
- Hedge funds involved in secondary trading or distressed debt

These investors invest in:

- US EETCs, aircraft ABS, secured and unsecured lessor bonds
- Expected to form the basis of non-US based EETC issuance

Aircraft debt issuers and investors aware of the value and benefit of security



Key features of EETC

Characteristics of Enhanced Equipment Trust Certificates (EETC)

- Corporate bond, not ABS
 - Single airline obligor
 - Not securitization of pooled cashflows from multiple obligors
- Secured by first priority claim on identified collateral with Section 1110 protection
- Underlying obligations are mortgages (owned aircraft) or leveraged lease notes (leased aircraft)
- Ratings are enhanced over an airline's corporate credit rating

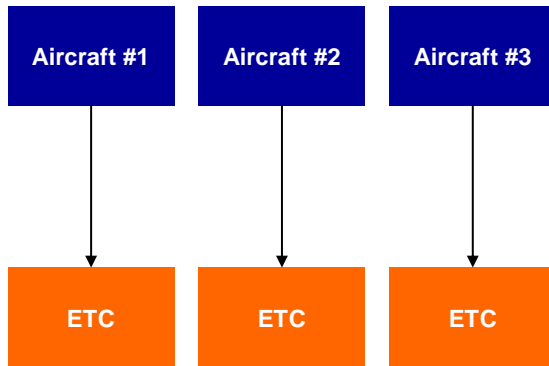
Aircraft financing lends itself well to EETC type structures



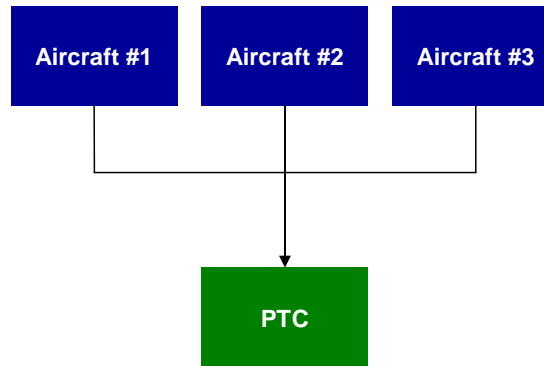
Key features of EETC

Enhanced Equipment Trust Certificates

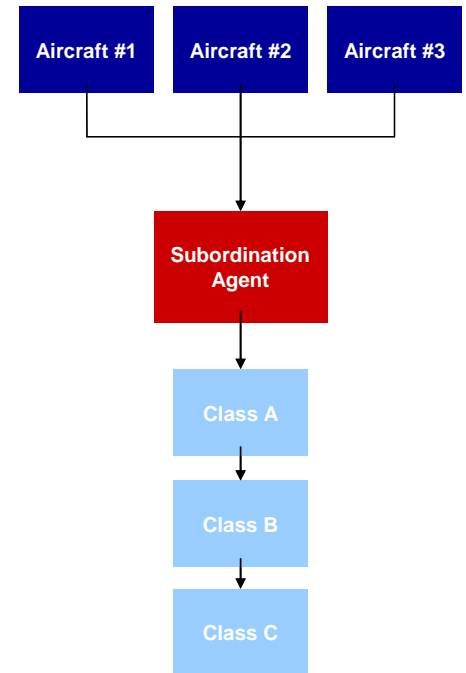
Equipment Trust Certificates



Pass Through Certificates



Enhanced Equipment Trust Certificates

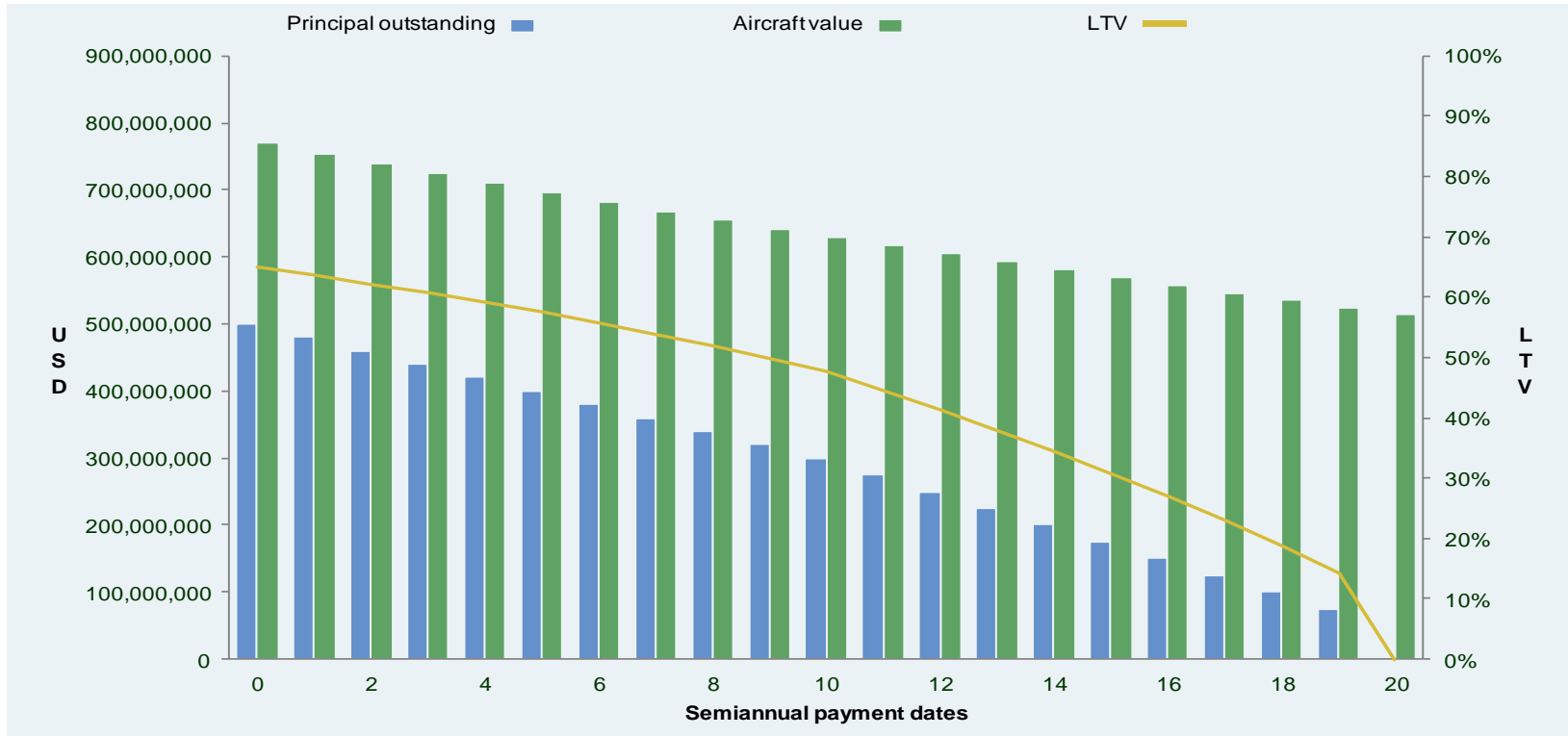


EETC structures provide more diverse exposure with more investor options

Traditional debt structure

LTV assumptions given no default

Indicative \$500mm bond with an initial LTV of 65%, 5.98 average life, 10 years final maturity



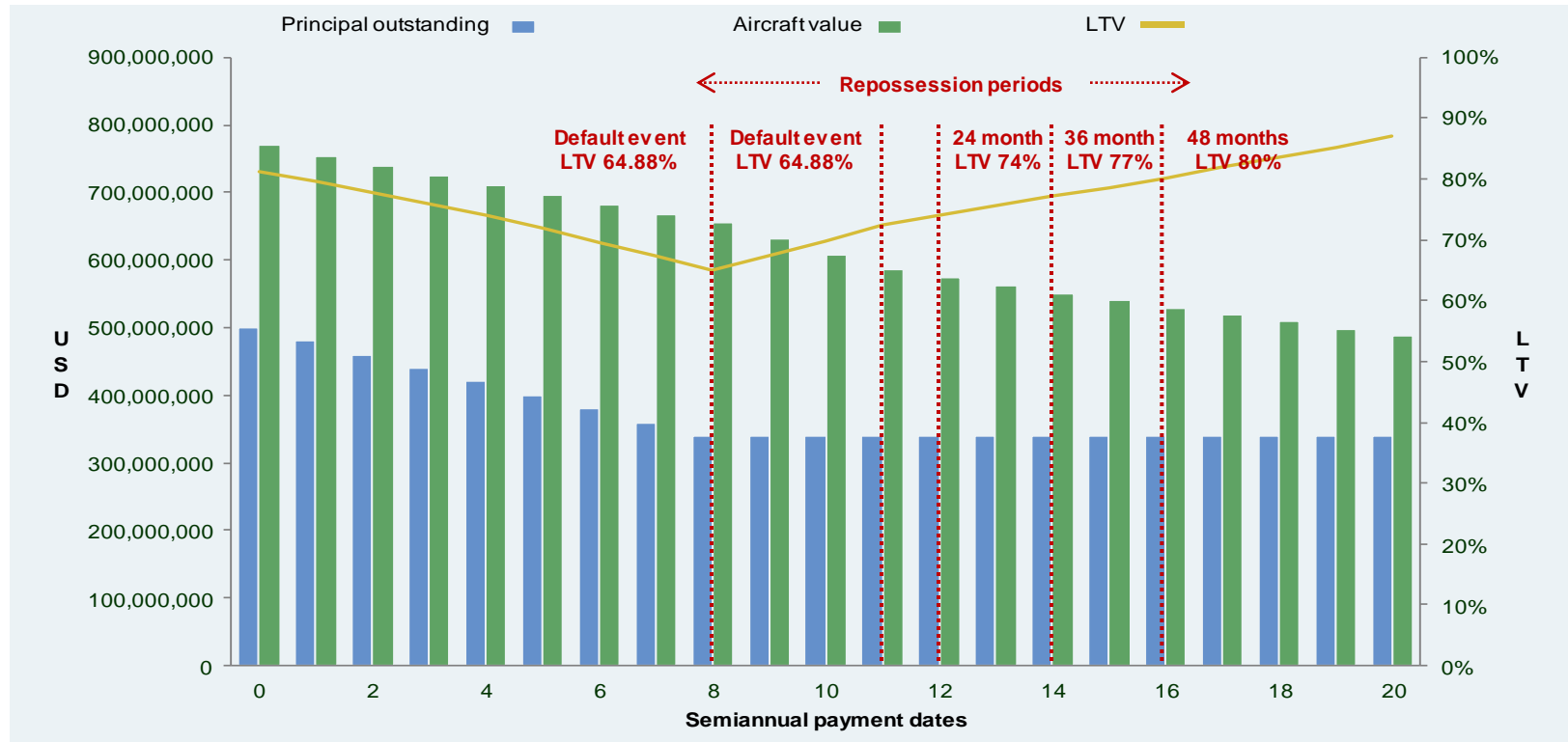
LTV ranges declines from 60% to under 50% at 10yrs



Investor protection

LTV assumptions given default with depressed collateral values

Indicative \$500mm bond with an initial LTV of 65%, 5.98 average life, 10 years final maturity



EETC structure provides security or downside protection for lenders



Export Credit Financing

Increased focus on credit rating of airline or borrower

Minimum Premium Rates (12-year repayment term, asset-backed transactions)

Risk Category	Risk Classification	Minimum Premium Rates			
		Per Annum Spreads (bps)	Up-Front (%)	Cape Town Reduction (%)*	Cape Town Reduction p.a. (%)**
1	AAA to BBB-	147	8.30	0.83	0.13
2	BB+ and BB	188	10.68	1.07	0.17
3	BB-	203	11.55	1.16	0.18
4	B+	224	12.79	1.28	0.20
5	B	261	14.98	1.50	0.23
6	B-	268	15.40	1.54	0.24
7	CCC	297	17.14	1.71	0.27
8	CC to C	304	17.56	1.76	0.27

Source: OECD ASU Premium and Interest Rates, Minimum Premium Rates (MPR) as of April 15, 2012

* Represents a 10% reduction of the applicable MPR

** Per annum savings assuming a weighted average life of 6.4 years

Cape Town up-front cost reduction analysis under ASU 2011

Risk Category / CMV*	E175	A320	B787-8	B777-300ER	A380
	\$28,400,000	\$41,000,000	\$111,400,000	\$159,000,000	\$210,000,000
AAA to BBB-	235,720	340,300	924,620	1,319,700	1,743,000
BB+ and BB	303,312	437,880	1,189,752	1,698,120	2,242,800
BB-	328,020	473,550	1,286,670	1,836,450	2,425,500
B+	363,236	524,390	1,424,806	2,033,610	2,685,900
B	425,432	614,180	1,668,772	2,381,820	3,145,800
B-	437,360	631,400	1,715,560	2,448,600	3,234,000
CCC	486,776	702,740	1,909,396	2,725,260	3,599,400
CC to C	498,704	719,960	1,956,184	2,792,040	3,687,600

Source: ASG Guide as of March 13, 2012

* Current market value for new aircraft delivered 2012



Conclusion

- **Global financing markets are in a state of flux**
 - External factors impact lending capacity of US and European banks
 - Asian banks have capacity, but limited appetite for cross border lending
 - ECA debt pricing increases likely to limit long term funding demand
- **Aircraft lessors and financiers need:**
 - Competitive cost financing and alternate sources of debt capital
 - Streamlined operations, especially given sharp rise in delivery rates
 - Ability to place aircraft in any jurisdiction
 - Ease of transition of an asset
- **Cape Town provides clarity over security**
 - Important for opening up of international capital markets

Global airline industry needs a common, global legal standard and funding structures



www.bocaviation.com