Boeing Capital Corporation

Current Aircraft Finance Market Outlook 2016

The 2016 *Current Aircraft Finance Market Outlook* forecasts continued strength in the primary aircraft finance sectors, with a growing number of market participants and a steady trend toward more funding options at attractive pricing for buyers of commercial aircraft. Underpinned by strong commercial aviation industry fundamentals and bolstered by interest from both new and experienced financiers and investors, we believe the aircraft finance industry is well-positioned for another successful year.

In 2016, we anticipate that the industry will provide funding for approximately $127 billion in new commercial aircraft deliveries, with the capital markets and commercial banks accounting for approximately two-thirds of that total. Much of the funding should flow to lessors, who are expected to support around 40 percent of new airplane deliveries. The depth and breadth of commercial market liquidity should continue the trend of historically low usage of export credit.

The sustaining strength of aircraft finance markets is driven largely by healthy aviation industry fundamentals and balanced supply and demand for commercial aircraft. Air traffic is growing above long-term trends, airplane utilization and load factors continue to rise, replacement demand remains strong, and global airlines are producing record operating results and profits. As outlined in the Boeing *Current Market Outlook*, these dynamics should result in annual airplane demand increasing 35 to 40 percent over the next decade. The air cargo recovery slowed in 2015 with a decline in world trade growth. However, the long-term outlook for air cargo demand remains strong due to faster growth among developed economies and the expanding networks of Sixth Freedom carriers. These trends should help drive a return to capacity balance and boost demand for new, fuel-efficient freighters.

In this period of record backlogs and rising delivery rates, some market sentiment is focused on a potential imbalance between capacity and demand. We acknowledge these views and remain vigilant in ensuring that our production plans reflect market realities. All objective measures show that we are currently in a tight aircraft supply market, and our planned delivery rates as a share of the installed fleet are in line with historical norms.

Overall, the aircraft finance outlook for 2016 is a positive one. We expect the industry to continue developing new markets and structures, enabling even broader financier and investor participation in aviation, and resulting in greater efficiency for airlines and lessors. In particular, we forecast increasing momentum behind lessor portfolio sell-down into the capital markets and the development of regional private placement markets. Standardizing these structures to enable their usage by a broader set of borrowers, financiers, and investors should be an important area of focus for all market participants.

Working together, we can translate this forecast into profitable business for all market constituents.

—*Boeing Capital Corporation*
December 2015

Working Together
for sustainable and efficient aircraft financing

Capital Providers

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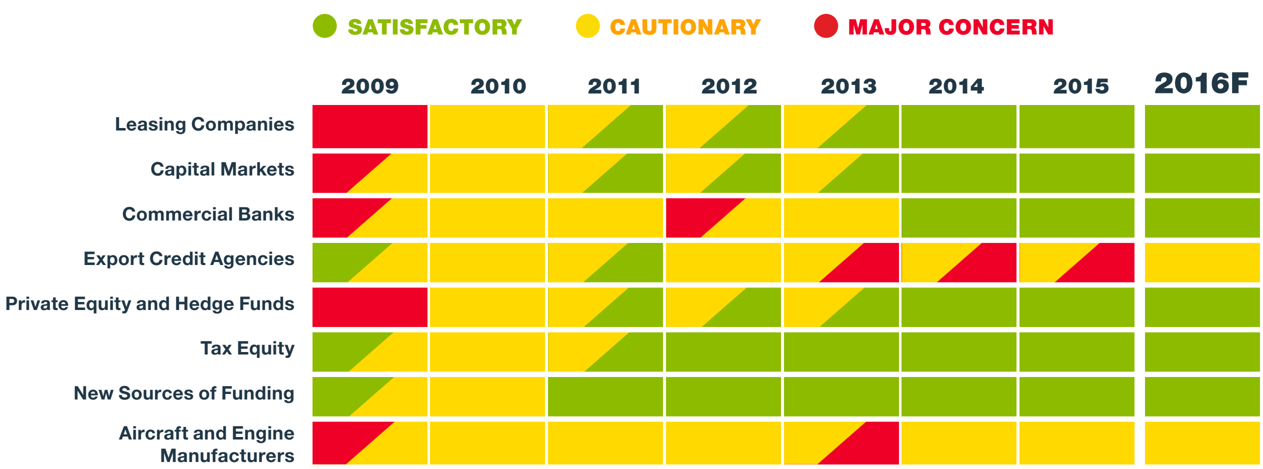
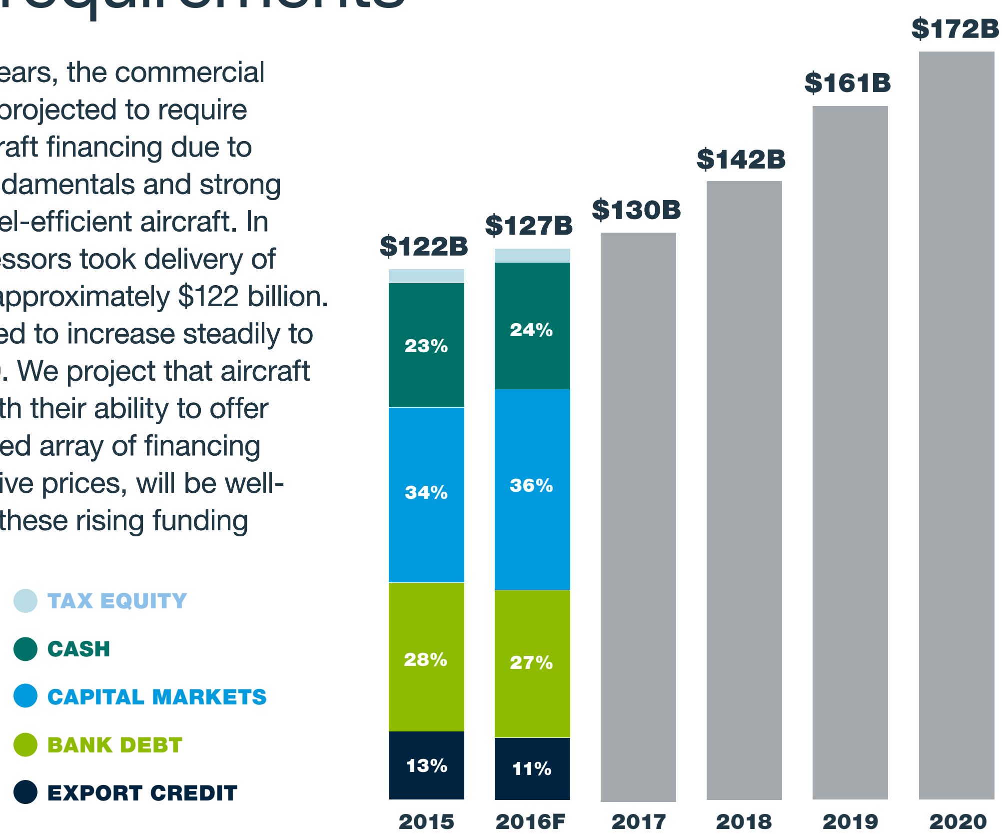
Robust aircraft finance markets

In 2016, the aircraft finance industry is projected to deliver broad and deep liquidity, attract new market participants, and innovate to meet the needs of investors and borrowers. We anticipate that buyers of commercial aircraft will take advantage of the efficient funding available in the capital markets for new deliveries and refinancing, with capital markets' share of the overall financing pool rising to the highest level ever. Commercial bank activity is expected to remain strong, with export credit usage dropping to historic lows. Tax equity and other smaller sources of funding are forecast to stay steady, with any manufacturer support limited to unique challenges not addressable by other funding sources.



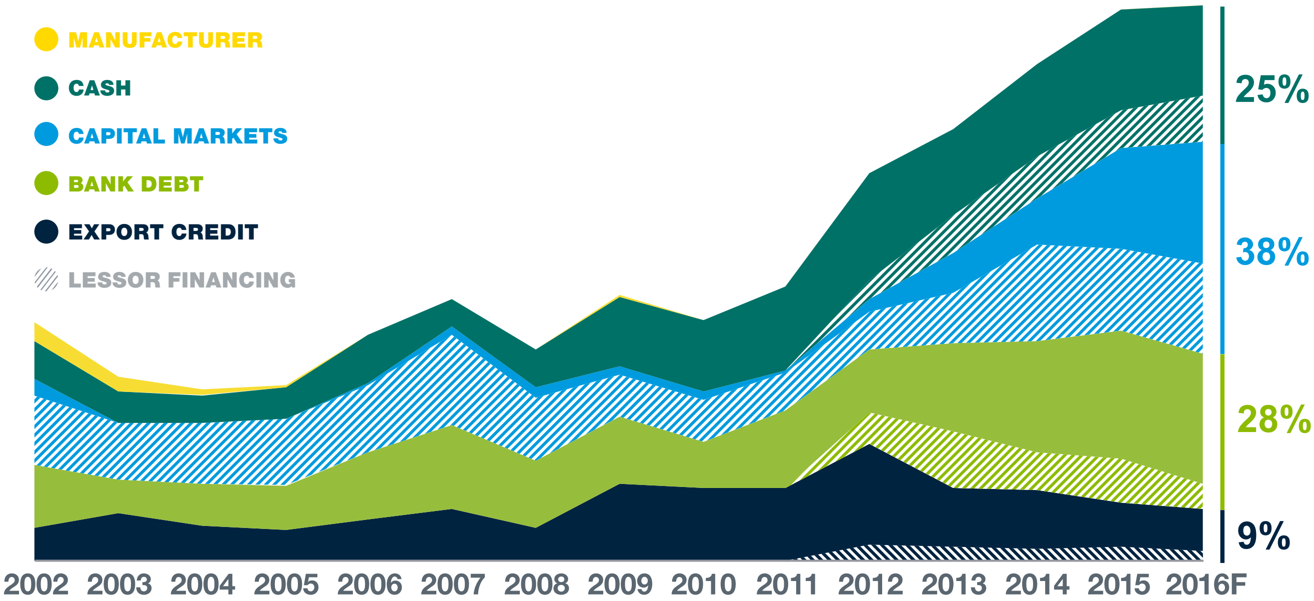
Thriving industry, growing funding requirements

Over the next five years, the commercial aviation industry is projected to require higher levels of aircraft financing due to healthy industry fundamentals and strong demand for new, fuel-efficient aircraft. In 2015, airlines and lessors took delivery of new aircraft worth approximately $122 billion. That total is expected to increase steadily to $172 billion by 2020. We project that aircraft finance markets, with their ability to offer a broad and balanced array of financing options at competitive prices, will be well-positioned to meet these rising funding requirements.



Diversified funding for Boeing deliveries

In 2016, capital markets are expected to support 38 percent of Boeing deliveries, their largest share to date. Commercial bank debt is forecast to retain a significant share, with cash following close behind. As in previous years, we anticipate the role of leasing companies to grow in importance, with approximately half of capital market funding going to these vital market participants. Given the healthy commercial markets, Ex-Im Bank's support is projected to be limited in scale.

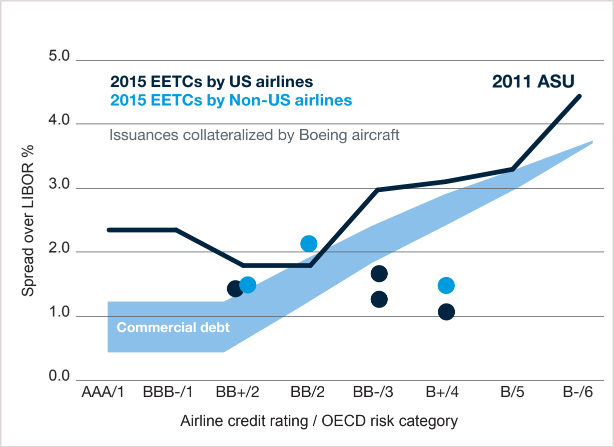


Efficient financing costs

A combination of low interest rates and tight risk spreads is resulting in historically low aircraft financing costs.

Commercial banks are lending at higher volumes and tighter spreads than before the financial crisis. An influx of new lenders has increased competition and driven down pricing, especially for loans to lessors and first-tier carriers.

Enhanced equipment trust certificates (EETC) remain the most efficient financing option for airlines with large delivery streams. Private placement structures are enabling a broader range of carriers to access the capital markets at a reasonable price, while lessors and strong airline credits continue to enjoy efficient unsecured financing.



With its higher exposure fees and risk mitigant requirements, the 2011 Aircraft Sector Understanding (ASU) is keeping the costs of export credit higher than commercial alternatives.

The markets anticipate higher interest rates and increased aircraft financing costs in 2016. Should these developments occur, we believe they will have a modest impact on our customers because rising interest rates are usually a reflection of an improving economic environment and accelerating air travel demand.

Lessors

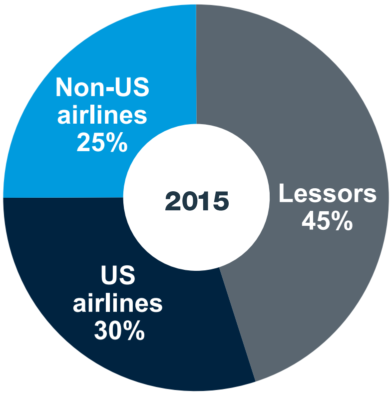
The role of leasing companies in supporting new commercial airplane deliveries—both through direct purchases and sale-leasebacks—is again expected to be significant. We anticipate that lessors will continue securing most of their leverage through the capital markets, including issuances by parent companies, unsecured borrowing, and asset-backed securities transactions.

The emerging trend of lessor portfolio sell-down into the capital markets took flight in 2015. Leasing companies joined with investors to establish a number of joint ventures and other structures designed to enable the transfer of aircraft portfolio ownership to the capital markets. In 2016, we project this lessor portfolio sell-down trend to continue gaining momentum.

Capital markets

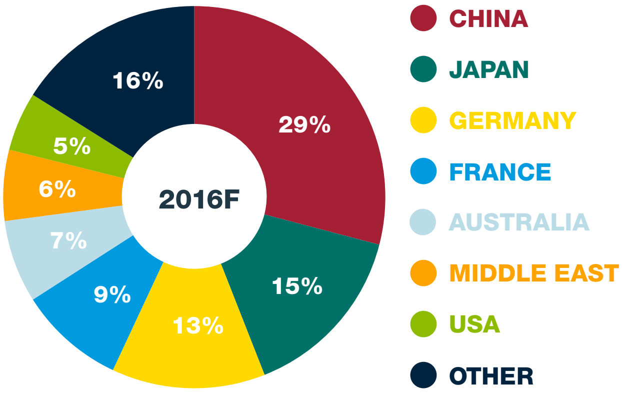
Last year was a blockbuster year for capital market funding of commercial aircraft, and we anticipate that 2016 will bring more of the same. Innovative structures and new funding sources continue to emerge, with the growth in private placement activity and non-US EETCs being notable examples. The strongest credits are expected to keep tapping unsecured funding while interest rates remain low. US airlines should continue using the capital markets for their new delivery and refinancing needs. And with momentum behind the Cape Town Convention and an expanding global investor base, we forecast continued growth in non-US airlines' use of the capital markets.

Balance in capital markets usage



Commercial bank debt

Commercial banks are expected to provide a steady level of aircraft financing liquidity in 2016, with a diverse group of experienced and new lenders helping to maintain a healthy geographic balance. While bank debt will continue to play a vital role in aircraft finance, we anticipate that tighter global regulations and US dollar pressures (in certain markets) may constrain the sector's volume. For the more experienced aircraft finance banks, predelivery payment financing offers an opportunity to grow at higher yields.



Export credit

Given the ample liquidity available from commercial markets, we forecast that global export credit usage will remain at historically low levels in 2016. The primary users of export credit are projected to be emerging market airlines and regional jet buyers.

Boeing Capital Corporation

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